

Union Calendar No. 136

106TH CONGRESS  
1ST Session

**H. R. 2488**

[Report No. 106-238]

**A BILL**

To amend the Internal Revenue Code of 1986 to reduce individual income tax rates, to provide marriage penalty relief, to reduce taxes on savings and investments, to provide estate and gift tax relief, to provide incentives for education savings and health care, and for other purposes.

JULY 16, 1999

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

# Union Calendar No. 136

106<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION

# H. R. 2488

[Report No. 106-238]

To amend the Internal Revenue Code of 1986 to reduce individual income tax rates, to provide marriage penalty relief, to reduce taxes on savings and investments, to provide estate and gift tax relief, to provide incentives for education savings and health care, and for other purposes.

---

## IN THE HOUSE OF REPRESENTATIVES

JULY 13, 1999

Mr. ARCHER introduced the following bill; which was referred to the Committee on Ways and Means

JULY 16, 1999

Additional sponsors: Mr. CRANE, Mr. ENGLISH, Mr. MCINNIS, Mr. HILL of Montana, Mr. THOMAS, Mr. ISAKSON, Mr. SMITH of Texas, and Mr. FOLEY

JULY 16, 1999

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in *italic*]

[For text of introduced bill, see copy of bill as introduced on July 13, 1999]

---

## A BILL

To amend the Internal Revenue Code of 1986 to reduce individual income tax rates, to provide marriage penalty relief, to reduce taxes on savings and investments, to provide estate and gift tax relief, to provide incentives

for education savings and health care, and for other purposes.

1       *Be it enacted by the Senate and House of Representa-*  
 2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. SHORT TITLE; ETC.**

4       (a) *SHORT TITLE.*—*This Act may be cited as the “Fi-*  
 5       *nancial Freedom Act of 1999”.*

6       (b) *AMENDMENT OF 1986 CODE.*—*Except as otherwise*  
 7       *expressly provided, whenever in this Act an amendment or*  
 8       *repeal is expressed in terms of an amendment to, or repeal*  
 9       *of, a section or other provision, the reference shall be consid-*  
 10       *ered to be made to a section or other provision of the Inter-*  
 11       *nal Revenue Code of 1986.*

12       (c) *SECTION 15 NOT TO APPLY.*—*No amendment*  
 13       *made by this Act shall be treated as a change in a rate*  
 14       *of tax for purposes of section 15 of the Internal Revenue*  
 15       *Code of 1986.*

16       (d) *TABLE OF CONTENTS.*—*The table of contents for*  
 17       *this Act is as follows:*

*Sec. 1. Short title; etc.*

**TITLE I—BROAD-BASED TAX RELIEF**

**Subtitle A—10-Percent Reduction in Individual Income Tax Rates**

*Sec. 101. 10-percent reduction in individual income tax rates.*

**Subtitle B—Marriage Penalty Tax Relief**

*Sec. 111. Elimination of marriage penalty in standard deduction.*

*Sec. 112. Elimination of marriage penalty in deduction for interest on education loans.*

*Sec. 113. Rollover from regular IRA to Roth IRA.*

*Subtitle C—Repeal of Alternative Minimum Tax on Individuals*

*Sec. 121. Repeal of alternative minimum tax on individuals.*

*TITLE II—RELIEF FROM TAXATION ON SAVINGS AND INVESTMENTS*

*Sec. 201. Exemption of certain interest and dividend income from tax.*

*Sec. 202. Reduction in individual capital gain tax rates.*

*Sec. 203. Capital gains tax rates applied to capital gains of designated settlement funds.*

*Sec. 204. Special rule for members of uniformed services and foreign service, and other employees, in determining exclusion of gain from sale of principal residence.*

*Sec. 205. Treatment of certain dealer derivative financial instruments, hedging transactions, and supplies as ordinary assets.*

*Sec. 206. Worthless securities of financial institutions.*

*TITLE III—INCENTIVES FOR BUSINESS INVESTMENT AND JOB CREATION*

*Sec. 301. Reduction in corporate capital gain tax rate.*

*Sec. 302. Repeal of alternative minimum tax on corporations.*

*TITLE IV—EDUCATION SAVINGS INCENTIVES*

*Sec. 401. Modifications to education individual retirement accounts.*

*Sec. 402. Modifications to qualified tuition programs.*

*Sec. 403. Exclusion of certain amounts received under the National Health Service Corps scholarship program, the F. Edward Hebert Armed Forces Health Professions Scholarship and Financial Assistance Program, and certain other programs.*

*Sec. 404. Additional increase in arbitrage rebate exception for governmental bonds used to finance educational facilities.*

*Sec. 405. Modification of arbitrage rebate rules applicable to public school construction bonds.*

*Sec. 406. Repeal of 60-month limitation on deduction for interest on education loans.*

*TITLE V—HEALTH CARE PROVISIONS*

*Sec. 501. Deduction for health and long-term care insurance costs of individuals not participating in employer-subsidized health plans.*

*Sec. 502. Long-term care insurance permitted to be offered under cafeteria plans and flexible spending arrangements.*

*Sec. 503. Expansion of availability of medical savings accounts.*

*Sec. 504. Additional personal exemption for taxpayer caring for elderly family member in taxpayer's home.*

*Sec. 505. Expanded human clinical trials qualifying for orphan drug credit.*

*Sec. 506. Inclusion of certain vaccines against streptococcus pneumoniae to list of taxable vaccines.*

*Sec. 507. Above-the-line deduction for prescription drug insurance coverage of medicare beneficiaries if certain medicare and low-income assistance provisions in effect.*

*TITLE VI—ESTATE TAX RELIEF*

*Subtitle A—Repeal of Estate, Gift, and Generation-Skipping Taxes; Repeal of Step Up in Basis At Death*

*Sec. 601. Repeal of estate, gift, and generation-skipping taxes.*

*Sec. 602. Termination of step up in basis at death.*

*Sec. 603. Carryover basis at death.*

*Subtitle B—Reductions of Estate and Gift Tax Rates Prior to Repeal*

*Sec. 611. Additional reductions of estate and gift tax rates.*

*Subtitle C—Unified Credit Replaced With Unified Exemption Amount*

*Sec. 621. Unified credit against estate and gift taxes replaced with unified exemption amount.*

*Subtitle D—Modifications of Generation-Skipping Transfer Tax*

*Sec. 631. Deemed allocation of GST exemption to lifetime transfers to trusts; retroactive allocations.*

*Sec. 632. Severing of trusts.*

*Sec. 633. Modification of certain valuation rules.*

*Sec. 634. Relief provisions.*

*TITLE VII—TAX RELIEF FOR DISTRESSED COMMUNITIES AND INDUSTRIES*

*Subtitle A—American Community Renewal Act of 1999*

*Sec. 701. Short title.*

*Sec. 702. Designation of and tax incentives for renewal communities.*

*Sec. 703. Extension of expensing of environmental remediation costs to renewal communities.*

*Sec. 704. Extension of work opportunity tax credit for renewal communities*

*Sec. 705. Conforming and clerical amendments.*

*Sec. 706. Evaluation and reporting requirements.*

*Subtitle B—Farming Incentive*

*Sec. 711. Production flexibility contract payments.*

*Subtitle C—Oil and Gas Incentives*

*Sec. 721. 5-year net operating loss carryback for losses attributable to operating mineral interests of independent oil and gas producers.*

*Sec. 722. Deduction for delay rental payments.*

*Sec. 723. Election to expense geological and geophysical expenditures.*

*Sec. 724. Temporary suspension of limitation based on 65 percent of taxable income.*

*Sec. 725. Determination of small refiner exception to oil depletion deduction.*

*Subtitle D—Timber Incentives*

*Sec. 731. Temporary suspension of maximum amount of amortizable reforestation expenditures.*

*Sec. 732. Capital gain treatment under section 631(b) to apply to outright sales by land owner.*

*Subtitle E—Steel Industry Incentive*

*Sec. 741. Minimum tax relief for steel industry.*

*TITLE VIII—RELIEF FOR SMALL BUSINESSES*

*Sec. 801. Deduction for 100 percent of health insurance costs of self-employed individuals.*

*Sec. 802. Increase in expense treatment for small businesses.*

*Sec. 803. Repeal of Federal unemployment surtax.*

*Sec. 804. Restoration of 80 percent deduction for meal expenses.*

*TITLE IX—INTERNATIONAL TAX RELIEF*

*Sec. 901. Interest allocation rules.*

*Sec. 902. Look-thru rules to apply to dividends from noncontrolled section 902 corporations.*

*Sec. 903. Clarification of treatment of pipeline transportation income.*

*Sec. 904. Subpart F treatment of income from transmission of high voltage electricity.*

*Sec. 905. Recharacterization of overall domestic loss.*

*Sec. 906. Treatment of military property of foreign sales corporations.*

*Sec. 907. Treatment of certain dividends of regulated investment companies.*

*Sec. 908. Repeal of special rules for applying foreign tax credit in case of foreign oil and gas income.*

*Sec. 909. Study of proper treatment of European Union under same country exceptions.*

*Sec. 910. Application of denial of foreign tax credit with respect to certain foreign countries.*

*Sec. 911. Advance pricing agreements treated as confidential taxpayer information.*

*Sec. 912. Increase in dollar limitation on section 911 exclusion.*

*TITLE X—PROVISIONS RELATING TO TAX-EXEMPT ORGANIZATIONS*

*Sec. 1001. Exemption from income tax for State-created organizations providing property and casualty insurance for property for which such coverage is otherwise unavailable.*

*Sec. 1002. Modification of special arbitrage rule for certain funds.*

*Sec. 1003. Charitable split-dollar life insurance, annuity, and endowment contracts.*

*Sec. 1004. Exemption procedure from taxes on self-dealing.*

*Sec. 1005. Expansion of declaratory judgment remedy to tax-exempt organizations.*

*Sec. 1006. Modifications to section 512(b)(13).*

*TITLE XI—REAL ESTATE PROVISIONS**Subtitle A—Provisions Relating to Real Estate Investment Trusts**PART I—TREATMENT OF INCOME AND SERVICES PROVIDED BY TAXABLE REIT SUBSIDIARIES*

*Sec. 1101. Modifications to asset diversification test.*

*Sec. 1102. Treatment of income and services provided by taxable REIT subsidiaries.*

*Sec. 1103. Taxable REIT subsidiary.*

*Sec. 1104. Limitation on earnings stripping.*

*Sec. 1105. 100 percent tax on improperly allocated amounts.*

*Sec. 1106. Effective date.*

#### *PART II—HEALTH CARE REITS*

*Sec. 1111. Health care REITs.*

#### *PART III—CONFORMITY WITH REGULATED INVESTMENT COMPANY RULES*

*Sec. 1121. Conformity with regulated investment company rules.*

#### *PART IV—CLARIFICATION OF EXCEPTION FROM IMPERMISSIBLE TENANT SERVICE INCOME*

*Sec. 1131. Clarification of exception for independent operators.*

#### *PART V—MODIFICATION OF EARNINGS AND PROFITS RULES*

*Sec. 1141. Modification of earnings and profits rules.*

#### *PART VI—STUDY RELATING TO TAXABLE REIT SUBSIDIARIES*

*Sec. 1151. Study relating to taxable REIT subsidiaries.*

##### *Subtitle B—Modification of At-Risk Rules for Publicly Traded Nonrecourse Debt*

*Sec. 1161. Treatment under at-risk rules of publicly traded nonrecourse debt.*

##### *Subtitle C—Treatment of Construction Allowances and Certain Contributions to Capital of Retailers*

*Sec. 1171. Exclusion from gross income of qualified lessee construction allowances not limited for certain retailers to short-term leases.*

*Sec. 1172. Exclusion from gross income for certain contributions to the capital of certain retailers.*

#### *TITLE XII—PROVISIONS RELATING TO PENSIONS*

##### *Subtitle A—Expanding Coverage*

*Sec. 1201. Increase in benefit and contribution limits.*

*Sec. 1202. Plan loans for subchapter S owners, partners, and sole proprietors.*

*Sec. 1203. Modification of top-heavy rules.*

*Sec. 1204. Elective deferrals not taken into account for purposes of deduction limits.*

*Sec. 1205. Reduced PBGC premium for new plans of small employers.*

*Sec. 1206. Reduction of additional PBGC premium for new and small plans.*

*Sec. 1207. Repeal of coordination requirements for deferred compensation plans of State and local governments and tax-exempt organizations.*

*Sec. 1208. Elimination of user fee for requests to IRS regarding pension plans.*

*Sec. 1209. Deduction limits.*

*Sec. 1210. Option to treat elective deferrals as after-tax contributions.*

*Sec. 1211. Increase in minimum defined benefit limit under section 415.*

##### *Subtitle B—Enhancing Fairness for Women*

*Sec. 1221. Additional salary reduction catch-up contributions.*

*Sec. 1222. Equitable treatment for contributions of employees to defined contribution plans.*

- Sec. 1223. Faster vesting of certain employer matching contributions.*
- Sec. 1224. Simplify and update the minimum distribution rules.*
- Sec. 1225. Clarification of tax treatment of division of section 457 plan benefits upon divorce.*

#### *Subtitle C—Increasing Portability for Participants*

- Sec. 1231. Rollovers allowed among various types of plans.*
- Sec. 1232. Rollovers of IRAs into workplace retirement plans.*
- Sec. 1233. Rollovers of after-tax contributions.*
- Sec. 1234. Hardship exception to 60-day rule.*
- Sec. 1235. Treatment of forms of distribution.*
- Sec. 1236. Rationalization of restrictions on distributions.*
- Sec. 1237. Purchase of service credit in governmental defined benefit plans.*
- Sec. 1238. Employers may disregard rollovers for purposes of cash-out amounts.*
- Sec. 1239. Minimum distribution and inclusion requirements for section 457 plans.*

#### *Subtitle D—Strengthening Pension Security and Enforcement*

- Sec. 1241. Repeal of 150 percent of current liability funding limit.*
- Sec. 1242. Maximum contribution deduction rules modified and applied to all defined benefit plans.*
- Sec. 1243. Missing participants.*
- Sec. 1244. Excise tax relief for sound pension funding.*
- Sec. 1245. Excise tax on failure to provide notice by defined benefit plans significantly reducing future benefit accruals.*

#### *Subtitle E—Reducing Regulatory Burdens*

- Sec. 1251. Repeal of the multiple use test.*
- Sec. 1252. Modification of timing of plan valuations.*
- Sec. 1253. Flexibility and nondiscrimination and line of business rules.*
- Sec. 1254. Substantial owner benefits in terminated plans.*
- Sec. 1255. ESOP dividends may be reinvested without loss of dividend deduction.*
- Sec. 1256. Notice and consent period regarding distributions.*
- Sec. 1257. Repeal of transition rule relating to certain highly compensated employees.*
- Sec. 1258. Employees of tax-exempt entities.*
- Sec. 1259. Clarification of treatment of employer-provided retirement advice.*
- Sec. 1260. Provisions relating to plan amendments.*
- Sec. 1261. Model plans for small businesses.*
- Sec. 1262. Simplified annual filing requirement for plans with fewer than 25 employees.*
- Sec. 1263. Improvement of Employee Plans Compliance Resolution System.*

### **TITLE XIII—MISCELLANEOUS PROVISIONS**

#### *Subtitle A—Provisions Primarily Affecting Individuals*

- Sec. 1301. Exclusion for foster care payments to apply to payments by qualified placement agencies.*
- Sec. 1302. Mileage reimbursements to charitable volunteers excluded from gross income.*
- Sec. 1303. W-2 to include employer social security taxes.*
- Sec. 1304. Consistent treatment of survivor benefits for public safety officers killed in the line of duty.*



*Subtitle B—Provisions Primarily Affecting Businesses*

- Sec. 1311. Distributions from publicly traded partnerships treated as qualifying income of regulated investment companies.*
- Sec. 1312. Special passive activity rule for publicly traded partnerships to apply to regulated investment companies.*
- Sec. 1313. Large electric trucks, vans, and buses eligible for deduction for clean-fuel vehicles in lieu of credit.*
- Sec. 1314. Modifications to special rules for nuclear decommissioning costs.*
- Sec. 1315. Consolidation of life insurance companies with other corporations.*

*Subtitle C—Provisions Relating to Excise Taxes*

- Sec. 1321. Consolidation of Hazardous Substance Superfund and Leaking Underground Storage Tank Trust Fund.*
- Sec. 1322. Repeal of certain motor fuel excise taxes on fuel used by railroads and on inland waterway transportation.*
- Sec. 1323. Repeal of excise tax on fishing tackle boxes.*
- Sec. 1324. Clarification of excise tax imposed on arrow components.*

*Subtitle D—Improvements in Low-Income Housing Credit*

- Sec. 1331. Increase in State ceiling on low-income housing credit.*
- Sec. 1332. Modification of criteria for allocating housing credits among projects.*
- Sec. 1333. Additional responsibilities of housing credit agencies.*
- Sec. 1334. Modifications to rules relating to basis of building which is eligible for credit.*
- Sec. 1335. Other modifications.*
- Sec. 1336. Carryforward rules.*
- Sec. 1337. Effective date.*

*Subtitle E—Entrepreneurial Equity Capital Formation*

*PART I—TAX-FREE CONVERSIONS OF SPECIALIZED SMALL BUSINESS INVESTMENT COMPANIES INTO PASS-THRU ENTITIES*

- Sec. 1341. Modifications to provisions relating to regulated investment companies.*
- Sec. 1342. Tax-free reorganization of specialized small business investment company as a partnership.*

*PART II—ADDITIONAL INCENTIVES RELATED TO INVESTING IN SPECIALIZED SMALL BUSINESS INVESTMENT COMPANIES*

- Sec. 1346. Expansion of nonrecognition treatment for securities gain rolled over into specialized small business investment companies.*
- Sec. 1347. Modifications to exclusion for gain from qualified small business stock.*

*Subtitle F—Other Provisions*

- Sec. 1351. Increase in volume cap on private activity bonds.*
- Sec. 1352. Tax treatment of Alaska Native Settlement Trusts.*
- Sec. 1353. Increase in threshold for Joint Committee reports on refunds and credits.*
- Sec. 1354. Clarification of depreciation study.*

*Subtitle G—Tax Court Provisions*

- Sec. 1361. Tax Court filing fee in all cases commenced by filing petition.*  
*Sec. 1362. Expanded use of Tax Court practice fee.*  
*Sec. 1363. Confirmation of authority of Tax Court to apply doctrine of equitable recoupment.*

*Subtitle H—Tax-Free Transfer of Bottled Distilled Spirits to Bonded Dealers*

- Sec. 1371. Tax-free transfer of bottled distilled spirits from distilled spirits plant to bonded dealer.*  
*Sec. 1372. Establishment of distilled spirits plant.*  
*Sec. 1373. Distilled spirits plants.*  
*Sec. 1374. Bonded dealers.*  
*Sec. 1375. Time for collecting tax on distilled spirits.*  
*Sec. 1376. Exemption from occupational tax not applicable.*  
*Sec. 1377. Technical, conforming, and clerical amendments.*  
*Sec. 1378. Cooperative agreements.*  
*Sec. 1379. Effective date.*  
*Sec. 1380. Study.*

*TITLE XIV—EXTENSIONS OF EXPIRING PROVISIONS*

- Sec. 1401. Research credit.*  
*Sec. 1402. Subpart F exemption for active financing income.*  
*Sec. 1403. Taxable income limit on percentage depletion for marginal production.*  
*Sec. 1404. Work opportunity credit and welfare-to-work credit.*

*TITLE XV—REVENUE OFFSETS*

- Sec. 1501. Returns relating to cancellations of indebtedness by organizations lending money.*  
*Sec. 1502. Extension of Internal Revenue Service user fees.*  
*Sec. 1503. Limitations on welfare benefit funds of 10 or more employer plans.*  
*Sec. 1504. Increase in elective withholding rate for nonperiodic distributions from deferred compensation plans.*  
*Sec. 1505. Controlled entities ineligible for REIT status.*  
*Sec. 1506. Treatment of gain from constructive ownership transactions.*  
*Sec. 1507. Transfer of excess defined benefit plan assets for retiree health benefits.*  
*Sec. 1508. Modification of installment method and repeal of installment method for accrual method taxpayers.*  
*Sec. 1509. Limitation on use of nonaccrual experience method of accounting.*  
*Sec. 1510. Exclusion of like-kind exchange property from nonrecognition treatment on the sale of a principal residence.*

*TITLE XVI—TECHNICAL CORRECTIONS*

- Sec. 1601. Amendments related to Tax and Trade Relief Extension Act of 1998.*  
*Sec. 1602. Amendments related to Internal Revenue Service Restructuring and Reform Act of 1998.*  
*Sec. 1603. Amendments related to Tarpayer Relief Act of 1997.*  
*Sec. 1604. Other technical corrections.*  
*Sec. 1605. Clerical changes.*

***TITLE I—BROAD-BASED TAX  
RELIEF***

***Subtitle A—10-Percent Reduction in  
Individual Income Tax Rates***

***SEC. 101. 10-PERCENT REDUCTION IN INDIVIDUAL INCOME  
TAX RATES.***

*(a) REGULAR INCOME TAX RATES.—*

*(1) IN GENERAL.—Subsection (f) of section 1 is amended by adding at the end the following new paragraph:*

*“(8) RATE REDUCTIONS.—In prescribing the tables under paragraph (1) which apply with respect to taxable years beginning in a calendar year after 2000, each rate in such tables (without regard to this paragraph) shall be reduced by the number of percentage points (rounded to the next lowest tenth) equal to the applicable percentage (determined in accordance with the following table) of such rate:*

<b><i>“For taxable years beginning in calendar year—</i></b>	<b><i>The applicable percentage is—</i></b>
<i>2001 through 2004 .....</i>	<i>2.5</i>
<i>2005 through 2007 .....</i>	<i>5.0</i>
<i>2008 .....</i>	<i>7.5</i>
<i>2009 and thereafter .....</i>	<i>10.0.”</i>

*(2) TECHNICAL AMENDMENTS.—*

*(A) Subparagraph (B) of section 1(f)(2) is amended by inserting “except as provided in paragraph (8),” before “by not changing”.*

1           (B) Subparagraph (C) of section 1(f)(2) is  
2           amended by inserting “and the reductions under  
3           paragraph (8) in the rates of tax” before the pe-  
4           riod.

5           (C) The heading for subsection (f) of section  
6           1 is amended by inserting “RATE REDUCTIONS;”  
7           before “ADJUSTMENTS”.

8           (D) Section 1(g)(7)(B)(ii)(II) is amended  
9           by striking “15 percent” and inserting “the per-  
10          centage applicable to the lowest income bracket  
11          in subsection (c)”.

12          (E) Subparagraphs (A)(ii)(I) and (B)(i) of  
13          section 1(h)(1) are each amended by striking “28  
14          percent” and inserting “25.2 percent”.

15          (F) Section 531 is amended by striking  
16          “39.6 percent of the accumulated taxable in-  
17          come” and inserting “the product of the accumu-  
18          lated taxable income and the percentage applica-  
19          ble to the highest income bracket in section 1(c)”.

20          (G) Section 541 is amended by striking  
21          “39.6 percent of the undistributed personal hold-  
22          ing company income” and inserting “the prod-  
23          uct of the undistributed personal holding com-  
24          pany income and the percentage applicable to  
25          the highest income bracket in section 1(c)”.

1           (H) Section 3402(p)(1)(B) is amended by  
2 striking “specified is 7, 15, 28, or 31 percent”  
3 and all that follows and inserting “specified is—

4           “(i) 7 percent,

5           “(ii) a percentage applicable to 1 of  
6 the 3 lowest income brackets in section 1(c),  
7 or

8           “(iii) such other percentage as is per-  
9 mitted under regulations prescribed by the  
10 Secretary.”

11          (I) Section 3402(p)(2) is amended by strik-  
12 ing “15 percent of such payment” and inserting  
13 “the product of such payment and the percentage  
14 applicable to the lowest income bracket in section  
15 1(c)”.

16          (J) Section 3402(q)(1) is amended by strik-  
17 ing “28 percent of such payment” and inserting  
18 “the product of such payment and the percentage  
19 applicable to the next to the lowest income brack-  
20 et in section 1(c)”.

21          (K) Section 3402(r)(3) is amended by strik-  
22 ing “31 percent” and inserting “the rate appli-  
23 cable to the third income bracket in such sec-  
24 tion”.

1           (L) Section 3406(a)(1) is amended by strik-  
 2           ing “31 percent of such payment” and inserting  
 3           “the product of such payment and the percentage  
 4           applicable to the third income bracket in section  
 5           1(c)”.

6           (b) *MINIMUM TAX RATES.*—Subparagraph (A) of sec-  
 7           tion 55(b)(1) is amended by adding at the end the following  
 8           new clause:

9                       “(iv) *RATE REDUCTION.*—In the case  
 10                      of taxable years beginning after 2000, each  
 11                      rate in clause (i) (without regard to this  
 12                      clause) shall be reduced by the number of  
 13                      percentage points (rounded to the next low-  
 14                      est tenth) equal to the applicable percentage  
 15                      (determined in accordance with section  
 16                      1(f)(8)) of such rate.”.

17           (c) *EFFECTIVE DATE.*—The amendments made by this  
 18           section shall apply to taxable years beginning after Decem-  
 19           ber 31, 2000.

## 20       ***Subtitle B—Marriage Penalty Tax*** 21                       ***Relief***

### 22       ***SEC. 111. ELIMINATION OF MARRIAGE PENALTY IN STAND-*** 23                       ***ARD DEDUCTION.***

24           (a) *IN GENERAL.*—Paragraph (2) of section 63(c) (re-  
 25           lating to standard deduction) is amended—

1           (1) by striking “\$5,000” in subparagraph (A)  
 2           and inserting “twice the dollar amount in effect  
 3           under subparagraph (C) for the taxable year”,

4           (2) by adding “or” at the end of subparagraph  
 5           (B),

6           (3) by striking “in the case of” and all that fol-  
 7           lows in subparagraph (C) and inserting “in any  
 8           other case.”, and

9           (4) by striking subparagraph (D).

10          (b) *PHASE-IN*.—Subsection (c) of section 63 is amend-  
 11          ed by adding at the end the following new paragraph:

12                 “(7) *PHASE-IN OF INCREASE IN BASIC STANDARD*  
 13                 *DEDUCTION*.—In the case of taxable years beginning  
 14                 before January 1, 2003—

15                         “(A) paragraph (2)(A) shall be applied by  
 16                         substituting for ‘twice’—

17                                 “(i) ‘1.778 times’ in the case of taxable  
 18                                 years beginning during 2001, and

19                                 “(ii) ‘1.889 times’ in the case of tax-  
 20                                 able years beginning during 2002, and

21                         “(B) the basic standard deduction for a  
 22                         married individual filing a separate return shall  
 23                         be one-half of the amount applicable under para-  
 24                         graph (2)(A).

1     *If any amount determined under subparagraph (A) is*  
 2     *not a multiple of \$50, such amount shall be rounded*  
 3     *to the next lowest multiple of \$50.”.*

4     *(c) TECHNICAL AMENDMENTS.—*

5             *(1) Subparagraph (B) of section 1(f)(6) is*  
 6     *amended by striking “(other than with” and all that*  
 7     *follows through “shall be applied” and inserting*  
 8     *“(other than with respect to sections 63(c)(4) and*  
 9     *151(d)(4)(A)) shall be applied”.*

10            *(2) Paragraph (4) of section 63(c) is amended by*  
 11     *adding at the end the following flush sentence:*

12     *“The preceding sentence shall not apply to the*  
 13     *amount referred to in paragraph (2)(A).”.*

14     *(d) EFFECTIVE DATE.—The amendments made by this*  
 15     *section shall apply to taxable years beginning after Decem-*  
 16     *ber 31, 2000.*

17     **SEC. 112. ELIMINATION OF MARRIAGE PENALTY IN DEDUC-**  
 18             **TION FOR INTEREST ON EDUCATION LOANS.**

19     *(a) IN GENERAL.—Subparagraph (B) of section*  
 20     *221(b)(2) (relating to limitation based on modified adjusted*  
 21     *gross income) is amended—*

22             *(1) by striking “\$60,000” in clause (i)(II) and*  
 23     *inserting “twice such amount”, and*

24             *(2) by inserting “(\$30,000 in the case of a joint*  
 25     *return)” after “\$15,000” in clause (ii).*



1       (b) *CONFORMING AMENDMENT.*—Paragraph (1) of sec-  
 2       tion 221(g) is amended by striking “and \$60,000 amounts  
 3       in subsection (b)(2) shall each” and inserting “amount in  
 4       subsection (b)(2) shall”.

5       (c) *EFFECTIVE DATE.*—The amendments made by this  
 6       section shall apply to taxable years beginning after Decem-  
 7       ber 31, 1999.

8       **SEC. 113. ROLLOVER FROM REGULAR IRA TO ROTH IRA.**

9       (a) *IN GENERAL.*—Clause (i) of section 408A(c)(3)(B)  
 10       is amended by inserting “(\$160,000 in the case of a joint  
 11       return)” after “\$100,000”.

12       (b) *EFFECTIVE DATE.*—The amendments made by this  
 13       section shall apply to taxable years beginning after Decem-  
 14       ber 31, 1999.

15       **Subtitle C—Repeal of Alternative**  
 16       **Minimum Tax on Individuals**

17       **SEC. 121. REPEAL OF ALTERNATIVE MINIMUM TAX ON INDIVIDUALS.**

18       (a) *IN GENERAL.*—Subsection (a) of section 55 is  
 19       amended by adding at the end the following new flush sen-  
 20       tence:  
 21       tence:

22       “For purposes of this title, the tentative minimum tax on  
 23       any taxpayer other than a corporation for any taxable year  
 24       beginning after December 31, 2007, shall be zero.”

1       (b) *REDUCTION OF TAX ON INDIVIDUALS PRIOR TO*  
 2 *REPEAL.*—Section 55 is amended by adding at the end the  
 3 *following new subsection:*

4       “(f) *PHASEOUT OF TAX ON INDIVIDUALS.*—

5               “(1) *IN GENERAL.*—The tax imposed by this sec-  
 6 *tion on a taxpayer other than a corporation for any*  
 7 *taxable year beginning after December 31, 2002, and*  
 8 *before January 1, 2008, shall be the applicable per-*  
 9 *centage of the tax which would be imposed but for this*  
 10 *subsection.*

11              “(2) *APPLICABLE PERCENTAGE.*—For purposes  
 12 *of paragraph (1), the applicable percentage shall be*  
 13 *determined in accordance with the following table:*

<b>“For taxable years beginning in calendar year—</b>	<b>The applicable percentage is—</b>
2003 .....	80
2004 .....	70
2005 .....	60
2006 or 2007 .....	50.”

14       (c) *NONREFUNDABLE PERSONAL CREDITS FULLY AL-*  
 15 *LOWED AGAINST REGULAR TAX LIABILITY.*—

16              “(1) *IN GENERAL.*—Subsection (a) of section 26  
 17 *(relating to limitation based on amount of tax) is*  
 18 *amended to read as follows:*

19              “(a) *LIMITATION BASED ON AMOUNT OF TAX.*—The  
 20 *aggregate amount of credits allowed by this subpart for the*  
 21 *taxable year shall not exceed the taxpayer’s regular tax li-*  
 22 *ability for the taxable year.”*

1           (2) *CHILD CREDIT*.—Subsection (d) of section 24  
 2           is amended by striking paragraph (2) and by redesign-  
 3           nating paragraph (3) as paragraph (2).

4           (d) *LIMITATION ON USE OF CREDIT FOR PRIOR YEAR*  
 5           *MINIMUM TAX LIABILITY*.—Subsection (c) of section 53 is  
 6           amended to read as follows:

7           “(c) *LIMITATION*.—

8                   “(1) *IN GENERAL*.—Except as otherwise provided  
 9                   in this subsection, the credit allowable under sub-  
 10                  section (a) for any taxable year shall not exceed the  
 11                  excess (if any) of—

12                           “(A) the regular tax liability of the tax-  
 13                           payer for such taxable year reduced by the sum  
 14                           of the credits allowable under subparts A, B, D,  
 15                           E, and F of this part, over

16                           “(B) the tentative minimum tax for the tax-  
 17                           able year.

18                   “(2) *TAXABLE YEARS BEGINNING AFTER 2007*.—  
 19                   In the case of any taxable year beginning after 2007,  
 20                   the credit allowable under subsection (a) to a tax-  
 21                   payer other than a corporation for any taxable year  
 22                   shall not exceed 90 percent of the excess (if any) of—

23                           “(A) regular tax liability of the taxpayer  
 24                           for such taxable year, over

1                   “(B) the sum of the credits allowable under  
2                   subparts A, B, D, E, and F of this part.”

3           (e) *EFFECTIVE DATE.*—The amendments made by this  
4 section shall apply to taxable years beginning after Decem-  
5 ber 31, 1998.

6   **TITLE II—RELIEF FROM TAX-**  
7   **ATION ON SAVINGS AND IN-**  
8   **VESTMENTS**

9   **SEC. 201. EXEMPTION OF CERTAIN INTEREST AND DIVI-**  
10   **DEND INCOME FROM TAX.**

11           (a) *IN GENERAL.*—Part III of subchapter B of chapter  
12 1 (relating to amounts specifically excluded from gross in-  
13 come) is amended by inserting after section 115 the fol-  
14 lowing new section:

15   **“SEC. 116. PARTIAL EXCLUSION OF DIVIDENDS AND INTER-**  
16   **EST RECEIVED BY INDIVIDUALS.**

17           “(a) *EXCLUSION FROM GROSS INCOME.*—Gross in-  
18 come does not include dividends and interest otherwise in-  
19 cludible in gross income which are received during the tax-  
20 able year by an individual.

21           “(b) *LIMITATIONS.*—

22                   “(1) *MAXIMUM AMOUNT.*—The aggregate amount  
23 excluded under subsection (a) for any taxable year  
24 shall not exceed—

1           “(A) in the case of any taxable year begin-  
 2           ning in 2001 or 2002, \$100 (\$200 in the case of  
 3           a joint return), and

4           “(B) in the case of any taxable year begin-  
 5           ning after 2002, \$200 (\$400 in the case of a  
 6           joint return).

7           “(2) CERTAIN DIVIDENDS EXCLUDED.—Sub-  
 8           section (a) shall not apply to any dividend from a  
 9           corporation which for the taxable year of the corpora-  
 10          tion in which the distribution is made is a corpora-  
 11          tion exempt from tax under section 521 (relating to  
 12          farmers’ cooperative associations).

13          “(c) SPECIAL RULES.—For purposes of this section—

14           “(1) EXCLUSION NOT TO APPLY TO CAPITAL GAIN  
 15          DIVIDENDS FROM REGULATED INVESTMENT COMPA-  
 16          NIES AND REAL ESTATE INVESTMENT TRUSTS.—

**“For treatment of capital gain dividends, see sec-  
 tions 854(a) and 857(c).**

17           “(2) CERTAIN NONRESIDENT ALIENS INELIGIBLE  
 18          FOR EXCLUSION.—In the case of a nonresident alien  
 19          individual, subsection (a) shall apply only in deter-  
 20          mining the taxes imposed for the taxable year pursu-  
 21          ant to sections 871(b)(1) and 877(b).

22           “(3) DIVIDENDS FROM EMPLOYEE STOCK OWNER-  
 23          SHIP PLANS.—Subsection (a) shall not apply to any  
 24          dividend described in section 404(k).”.

1       (b) *CONFORMING AMENDMENTS.*—

2               (1) *Subparagraph (C) of section 32(c)(5) is*  
 3       *amended by striking “or” at the end of clause (i), by*  
 4       *striking the period at the end of clause (ii) and in-*  
 5       *serting “; or”, and by inserting after clause (ii) the*  
 6       *following new clause:*

7                       *“(iii) interest and dividends received*  
 8                       *during the taxable year which are excluded*  
 9                       *from gross income under section 116.”.*

10              (2) *Subparagraph (A) of section 32(i)(2) is*  
 11       *amended by inserting “(determined without regard to*  
 12       *section 116)” before the comma.*

13              (3) *Subparagraph (B) of section 86(b)(2) is*  
 14       *amended to read as follows:*

15                       *“(B) increased by the sum of—*

16                               *“(i) the amount of interest received or*  
 17                               *accrued by the taxpayer during the taxable*  
 18                               *year which is exempt from tax, and*

19                               *“(ii) the amount of interest and divi-*  
 20                               *dends received during the taxable year*  
 21                               *which are excluded from gross income under*  
 22                               *section 116.”.*

23              (4) *Subsection (d) of section 135 is amended by*  
 24       *redesignating paragraph (4) as paragraph (5) and by*

1       *inserting after paragraph (3) the following new para-*  
2       *graph:*

3               “(4) *COORDINATION WITH SECTION 116.—This*  
4       *section shall be applied before section 116.”.*

5               (5) *Paragraph (2) of section 265(a) is amended*  
6       *by inserting before the period “, or to purchase or*  
7       *carry obligations or shares, or to make deposits, to the*  
8       *extent the interest thereon is excludable from gross in-*  
9       *come under section 116”.*

10              (6) *Subsection (c) of section 584 is amended by*  
11       *adding at the end the following new flush sentence:*

12       *“The proportionate share of each participant in the amount*  
13       *of dividends or interest received by the common trust fund*  
14       *and to which section 116 applies shall be considered for*  
15       *purposes of such section as having been received by such*  
16       *participant.”.*

17              (7) *Subsection (a) of section 643 is amended by*  
18       *redesignating paragraph (7) as paragraph (8) and by*  
19       *inserting after paragraph (6) the following new para-*  
20       *graph:*

21              “(7) *DIVIDENDS OR INTEREST.—There shall be*  
22       *included the amount of any dividends or interest ex-*  
23       *cluded from gross income pursuant to section 116.”.*

24              (8) *Section 854(a) is amended by inserting “sec-*  
25       *tion 116 (relating to partial exclusion of dividends*

1       *and interest received by individuals) and” after “For*  
 2       *purposes of”.*

3               *(9) Section 857(c) is amended to read as follows:*

4       *“(c) RESTRICTIONS APPLICABLE TO DIVIDENDS RE-*  
 5       *CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—*

6               *“(1) TREATMENT FOR SECTION 116.—For pur-*  
 7       *poses of section 116 (relating to partial exclusion of*  
 8       *dividends and interest received by individuals), a*  
 9       *capital gain dividend (as defined in subsection*  
 10       *(b)(3)(C)) received from a real estate investment trust*  
 11       *which meets the requirements of this part shall not be*  
 12       *considered as a dividend.*

13              *“(2) TREATMENT FOR SECTION 243.—For pur-*  
 14       *poses of section 243 (relating to deductions for divi-*  
 15       *dends received by corporations), a dividend received*  
 16       *from a real estate investment trust which meets the*  
 17       *requirements of this part shall not be considered as a*  
 18       *dividend.”.*

19              *(10) The table of sections for part III of sub-*  
 20       *chapter B of chapter 1 is amended by inserting after*  
 21       *the item relating to section 115 the following new*  
 22       *item:*

*“Sec. 116. Partial exclusion of dividends and interest received by*  
                   *individuals.”.*



1       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall apply to taxable years beginning after Decem-*  
 3 *ber 31, 2000.*

4 **SEC. 202. REDUCTION IN INDIVIDUAL CAPITAL GAIN TAX**  
 5 **RATES.**

6       (a) *IN GENERAL.*—

7           (1) *Sections 1(h)(1)(B) and 55(b)(3)(B) are each*  
 8 *amended by striking “10 percent” and inserting “7.5*  
 9 *percent”.*

10          (2) *The following sections are each amended by*  
 11 *striking “20 percent” and inserting “15 percent”:*

12           (A) *Section 1(h)(1)(C).*

13           (B) *Section 55(b)(3)(C).*

14           (C) *Section 1445(e)(1).*

15           (D) *The second sentence of section*  
 16 *7518(g)(6)(A).*

17           (E) *The second sentence of section*  
 18 *607(h)(6)(A) of the Merchant Marine Act, 1936.*

19          (3) *Sections 1(h)(1)(D) and 55(b)(3)(D) are each*  
 20 *amended by striking “25 percent” and inserting “20*  
 21 *percent”.*

22       (b) *CONFORMING AMENDMENTS.*—

23           (1) *Section 311 of the Taxpayer Relief Act of*  
 24 *1997 is amended by striking subsection (e).*

25           (2) *Section 1(h) is amended—*

1                   (A) by striking paragraphs (2), (9), and  
2                   (13),

3                   (B) by redesignating paragraphs (3)  
4                   through (8) as paragraphs (2) through (7), re-  
5                   spectively, and

6                   (C) by redesignating paragraphs (10), (11),  
7                   and (12) as paragraphs (8), (9), and (10), re-  
8                   spectively.

9                   (3) Paragraph (3) of section 55(b) is amended by  
10                  striking “In the case of taxable years beginning after  
11                  December 31, 2000, rules similar to the rules of sec-  
12                  tion 1(h)(2) shall apply for purposes of subpara-  
13                  graphs (B) and (C).”.

14                  (4) Paragraph (7) of section 57(a) is amended—

15                         (A) by striking “42 percent” and inserting  
16                         “6 percent”, and

17                         (B) by striking the last sentence.

18                  (c) *TRANSITIONAL RULES FOR TAXABLE YEARS*  
19                  *WHICH INCLUDE JULY 1, 1999.*—For purposes of applying  
20                  section 1(h) of the Internal Revenue Code of 1986 in the  
21                  case of a taxable year which includes July 1, 1999—

22                         (1) The amount of tax determined under sub-  
23                         paragraph (B) of section 1(h)(1) of such Code shall be  
24                         the sum of—

25                                 (A) 7.5 percent of the lesser of—

1           (i) the net capital gain taking into ac-  
 2           count only gain or loss properly taken into  
 3           account for the portion of the taxable year  
 4           on or after such date (determined without  
 5           regard to collectibles gain or loss, gain de-  
 6           scribed in section (1)(h)(6)(A)(i) of such  
 7           Code, and section 1202 gain), or

8           (ii) the amount on which a tax is de-  
 9           termined under such subparagraph (without  
 10          regard to this subsection), plus

11          (B) 10 percent of the excess (if any) of—

12           (i) the amount on which a tax is deter-  
 13          mined under such subparagraph (without  
 14          regard to this subsection), over

15           (ii) the amount on which a tax is de-  
 16          termined under subparagraph (A).

17          (2) The amount of tax determined under sub-  
 18          paragraph (C) of section (1)(h)(1) of such Code shall  
 19          be the sum of—

20           (A) 15 percent of the lesser of—

21           (i) the excess (if any) of the amount of  
 22          net capital gain determined under subpara-  
 23          graph (A)(i) of paragraph (1) of this sub-  
 24          section over the amount on which a tax is

determined under subparagraph (A) of paragraph (1) of this subsection, or

(ii) the amount on which a tax is determined under such subparagraph (C) (without regard to this subsection), plus (B) 20 percent of the excess (if any) of—

(i) the amount on which a tax is determined under such subparagraph (C) (without regard to this subsection), over

(ii) the amount on which a tax is determined under subparagraph (A) of this paragraph.

(3) The amount of tax determined under subparagraph (D) of section (1)(h)(1) of such Code shall be the sum of—

(A) 20 percent of the lesser of—

(i) the amount which would be determined under section 1(h)(6)(A)(i) of such Code taking into account only gain properly taken into account for the portion of the taxable year on or after such date, or

(ii) the amount on which a tax is determined under such subparagraph (D) (without regard to this subsection), plus (B) 25 percent of the excess (if any) of—

1                   (i) the amount on which a tax is deter-  
 2                   mined under such subparagraph (D) (with-  
 3                   out regard to this subsection), over

4                   (ii) the amount on which a tax is de-  
 5                   termined under subparagraph (A) of this  
 6                   paragraph.

7                   (4) For purposes of applying section 55(b)(3) of  
 8                   such Code, rules similar to the rules of paragraphs  
 9                   (1), (2), and (3) of this subsection shall apply.

10                  (5) In applying this subsection with respect to  
 11                  any pass-thru entity, the determination of when gains  
 12                  and loss are properly taken into account shall be  
 13                  made at the entity level.

14                  (6) Terms used in this subsection which are also  
 15                  used in section 1(h) of such Code shall have the re-  
 16                  spective meanings that such terms have in such sec-  
 17                  tion.

18                  (d) *EFFECTIVE DATES.*—

19                   (1) *IN GENERAL.*—Except as otherwise provided  
 20                   by this subsection, the amendments made by this sec-  
 21                   tion shall apply to taxable years ending after June  
 22                   30, 1999.

23                   (2) *WITHHOLDING.*—The amendment made by  
 24                   subsection (a)(2)(C) shall apply to amounts paid  
 25                   after the date of the enactment of this Act.

1           (3) *SMALL BUSINESS STOCK*.—*The amendments*  
 2           *made by subsection (b)(4) shall apply to dispositions*  
 3           *on or after July 1, 1999.*

4   **SEC. 203. CAPITAL GAINS TAX RATES APPLIED TO CAPITAL**  
 5                           **GAINS OF DESIGNATED SETTLEMENT FUNDS.**

6           (a) *IN GENERAL*.—*Paragraph (1) of section 468B(b)*  
 7           *(relating to taxation of designated settlement funds) is*  
 8           *amended by inserting “(subject to section 1(h))” after*  
 9           *“maximum rate”.*

10          (b) *EFFECTIVE DATE*.—*The amendment made by this*  
 11          *section shall apply to taxable years beginning after Decem-*  
 12          *ber 31, 1999.*

13   **SEC. 204. SPECIAL RULE FOR MEMBERS OF UNIFORMED**  
 14                           **SERVICES AND FOREIGN SERVICE, AND**  
 15                           **OTHER EMPLOYEES, IN DETERMINING EXCLU-**  
 16                           **SION OF GAIN FROM SALE OF PRINCIPAL RES-**  
 17                           **IDENCE.**

18          (a) *IN GENERAL*.—*Subsection (d) of section 121 (relat-*  
 19          *ing to exclusion of gain from sale of principal residence)*  
 20          *is amended by adding at the end the following new para-*  
 21          *graphs:*

22                       “(9) *MEMBERS OF UNIFORMED SERVICES AND*  
 23                       *FOREIGN SERVICE*.—

24                       “(A) *IN GENERAL*.—*The running of the 5-*  
 25                       *year period described in subsection (a) shall be*

1       *suspended with respect to an individual during*  
 2       *any time that such individual or such individ-*  
 3       *ual's spouse is serving on qualified official ex-*  
 4       *tended duty as a member of the uniformed serv-*  
 5       *ices or of the Foreign Service.*

6               “(B)   *QUALIFIED   OFFICIAL   EXTENDED*  
 7       *DUTY.—For purposes of this paragraph—*

8               “(i) *IN GENERAL.—The term ‘qualified*  
 9       *official extended duty’ means any period of*  
 10       *extended duty as a member of the uniformed*  
 11       *services or a member of the Foreign Service*  
 12       *during which the member serves at a duty*  
 13       *station which is at least 50 miles from such*  
 14       *property or is under Government orders to*  
 15       *reside in Government quarters.*

16              “(ii)   *UNIFORMED   SERVICES.—The*  
 17       *term ‘uniformed services’ has the meaning*  
 18       *given such term by section 101(a)(5) of title*  
 19       *10, United States Code, as in effect on the*  
 20       *date of the enactment of the Financial Free-*  
 21       *dom Act of 1999.*

22              “(iii)   *FOREIGN   SERVICE   OF   THE*  
 23       *UNITED STATES.—The term ‘member of the*  
 24       *Foreign Service’ has the meaning given the*  
 25       *term ‘member of the Service’ by paragraph*

(1), (2), (3), (4), or (5) of section 103 of the Foreign Service Act of 1980, as in effect on the date of the enactment of the Financial Freedom Act of 1999.

“(iv) *EXTENDED DUTY*.—The term ‘extended duty’ means any period of active duty pursuant to a call or order to such duty for a period in excess of 90 days or for an indefinite period.

“(10) *OTHER EMPLOYEES*.—

“(A) *IN GENERAL*.—The running of the 5-year period described in subsection (a) shall be suspended with respect to an individual during any time that such individual or such individual’s spouse is serving as an employee for a period in excess of 90 days in an assignment by the such employee’s employer outside the United States.

“(B) *LIMITATIONS AND SPECIAL RULES*.—

“(i) *MAXIMUM PERIOD OF SUSPENSION*.—The suspension under subparagraph (A) with respect to a principal residence shall not exceed (in the aggregate) 5 years.

“(ii) *MEMBERS OF UNIFORMED SERVICES AND FOREIGN SERVICE*.—Subpara-



1                   graph (A) shall not apply to an individual  
2                   to whom paragraph (9) applies.

3                   “(iii) SELF-EMPLOYED INDIVIDUAL  
4                   NOT CONSIDERED AN EMPLOYEE.—For pur-  
5                   poses of this paragraph, the term ‘employee’  
6                   does not include an individual who is an  
7                   employee within the meaning of section  
8                   401(c)(1) (relating to self-employed individ-  
9                   uals).”.

10           (b) *EFFECTIVE DATE.*—The amendment made by this  
11 section shall apply to sales and exchanges after the date  
12 of the enactment of this Act.

13 **SEC. 205. TREATMENT OF CERTAIN DEALER DERIVATIVE FI-**  
14 **NANCIAL INSTRUMENTS, HEDGING TRANS-**  
15 **ACTIONS, AND SUPPLIES AS ORDINARY AS-**  
16 **SETS.**

17           (a) *IN GENERAL.*—Section 1221 (defining capital as-  
18 sets) is amended—

19                   (1) by striking “For purposes” and inserting the  
20 following:

21                   “(a) *IN GENERAL.*—For purposes”,

22                   (2) by striking the period at the end of para-  
23 graph (5) and inserting a semicolon, and

24                   (3) by adding at the end the following:

1           “(6) *any commodities derivative financial in-*  
 2           *strument held by a commodities derivatives dealer,*  
 3           *unless—*

4                     “(A) *it is established to the satisfaction of*  
 5                     *the Secretary that such instrument has no con-*  
 6                     *nection to the activities of such dealer as a deal-*  
 7                     *er, and*

8                     “(B) *such instrument is clearly identified*  
 9                     *in such dealer’s records as being described in*  
 10                    *subparagraph (A) before the close of the day on*  
 11                    *which it was acquired, originated, or entered*  
 12                    *into (or such other time as the Secretary may by*  
 13                    *regulations prescribe);*

14                    “(7) *any hedging transaction which is clearly*  
 15                    *identified as such before the close of the day on which*  
 16                    *it was acquired, originated, or entered into (or such*  
 17                    *other time as the Secretary may by regulations pre-*  
 18                    *scribe); or*

19                    “(8) *supplies of a type regularly used or con-*  
 20                    *sumed by the taxpayer in the ordinary course of a*  
 21                    *trade or business of the taxpayer.*

22           “(b) *DEFINITIONS AND SPECIAL RULES.—*

23                    “(1) *COMMODITIES DERIVATIVE FINANCIAL IN-*  
 24                    *STRUMENTS.—For purposes of subsection (a)(6)—*

1           “(A) *COMMODITIES DERIVATIVES DEAL-*  
 2           *ER.*—*The term ‘commodities derivatives dealer’*  
 3           *means a person which regularly offers to enter*  
 4           *into, assume, offset, assign, or terminate posi-*  
 5           *tions in commodities derivative financial instru-*  
 6           *ments with customers in the ordinary course of*  
 7           *a trade or business.*

8           “(B) *COMMODITIES DERIVATIVE FINANCIAL*  
 9           *INSTRUMENT.*—

10           “(i) *IN GENERAL.*—*The term ‘commod-*  
 11           *ities derivative financial instrument’ means*  
 12           *any contract or financial instrument with*  
 13           *respect to commodities (other than a share*  
 14           *of stock in a corporation, a beneficial inter-*  
 15           *est in a partnership or trust, a note, bond,*  
 16           *debenture, or other evidence of indebtedness,*  
 17           *or a section 1256 contract (as defined in*  
 18           *section 1256(b)) the value or settlement*  
 19           *price of which is calculated by or deter-*  
 20           *mined by reference to a specified index.*

21           “(ii) *SPECIFIED INDEX.*—*The term*  
 22           *‘specified index’ means any one or more or*  
 23           *any combination of—*

24                   “(I) *a fixed rate, price, or*  
 25                   *amount, or*

1                   “(II) a variable rate, price, or  
2                   amount,  
3                   which is based on any current, objectively  
4                   determinable financial or economic infor-  
5                   mation with respect to commodities which  
6                   is not within the control of any of the par-  
7                   ties to the contract or instrument and is not  
8                   unique to any of the parties’ circumstances.

9                   “(2) HEDGING TRANSACTION.—

10                   “(A) IN GENERAL.—For purposes of this  
11                   section, the term ‘hedging transaction’ means  
12                   any transaction entered into by the taxpayer in  
13                   the normal course of the taxpayer’s trade or busi-  
14                   ness primarily—

15                   “(i) to manage risk of price changes or  
16                   currency fluctuations with respect to ordi-  
17                   nary property which is held or to be held by  
18                   the taxpayer, or

19                   “(ii) to manage risk of interest rate or  
20                   price changes or currency fluctuations with  
21                   respect to borrowings made or to be made,  
22                   or ordinary obligations incurred or to be  
23                   incurred, by the taxpayer.

24                   “(B) TREATMENT OF NONIDENTIFICATION  
25                   OR IMPROPER IDENTIFICATION OF HEDGING

1           *TRANSACTIONS.—Notwithstanding subsection*  
 2           *(a)(7), the Secretary shall prescribe regulations*  
 3           *to properly characterize of any income, gain, ex-*  
 4           *pense, or loss arising from a transaction—*

5                     *“(i) which is a hedging transaction but*  
 6                     *which was not identified as such in accord-*  
 7                     *ance with subsection (a)(7), or*

8                     *“(ii) which was so identified but is not*  
 9                     *a hedging transaction.*

10           *“(3) REGULATIONS.—The Secretary shall pre-*  
 11           *scribe such regulations as are appropriate to carry*  
 12           *out the purposes of paragraph (6) and (7) of sub-*  
 13           *section (a) in the case of transactions involving re-*  
 14           *lated parties.”.*

15           *(b) MANAGEMENT OF RISK.—*

16                     *(1) Section 475(c)(3) is amended by striking “re-*  
 17                     *duces” and inserting “manages”.*

18                     *(2) Section 871(h)(4)(C)(iv) is amended by strik-*  
 19                     *ing “to reduce” and inserting “to manage”.*

20                     *(3) Clauses (i) and (ii) of section 988(d)(2)(A)*  
 21                     *are each amended by striking “to reduce” and insert-*  
 22                     *ing “to manage”.*

23                     *(4) Paragraph (2) of section 1256(e) is amended*  
 24                     *to read as follows:*

1 “(2) *DEFINITION OF HEDGING TRANSACTION.*—

2     For purposes of this subsection, the term ‘hedging  
3     transaction’ means any hedging transaction (as de-  
4     fined in section 1221(b)(2)(A)) if, before the close of  
5     the day on which such transaction was entered into  
6     (or such earlier time as the Secretary may prescribe  
7     by regulations), the taxpayer clearly identifies such  
8     transaction as being a hedging transaction.”

9 (c) *EFFECTIVE DATE.*—*The amendments made by this*  
10 *section shall apply to any instrument held, acquired, or en-*  
11 *tered into, any transaction entered into, and supplies held*  
12 *or acquired on or after the date of enactment of this Act.*

13 *SEC. 206. WORTHLESS SECURITIES OF FINANCIAL INSTITU-*  
14 *TIONS.*

(a) *IN GENERAL.*—The first sentence following section 165(g)(3)(B) (relating to securities of affiliated corporation) is amended to read as follows: “In computing gross receipts for purposes of the preceding sentence, (i) gross receipts from sales or exchanges of stocks and securities shall be taken into account only to the extent of gains therefrom, and (ii) gross receipts from royalties, rents, dividends, interest, annuities, and gains from sales or exchanges of stocks and securities derived from (or directly related to) the conduct of an active trade or business of an insurance company subject to tax under subchapter L or a qualified financial

1 *institution (as defined in subsection (l)(3)) shall be treated*  
 2 *as from such sources other than royalties, rents, dividends,*  
 3 *interest, annuities, and gains.”.*

4 *(b) EFFECTIVE DATE.—The amendment made by sub-*  
 5 *section (a) shall apply to securities which become worthless*  
 6 *in taxable years beginning after December 31, 1999.*

7 **TITLE III—INCENTIVES FOR**  
 8 **BUSINESS INVESTMENT AND**  
 9 **JOB CREATION**

10 **SEC. 301. REDUCTION IN CORPORATE CAPITAL GAIN TAX**  
 11 **RATE.**

12 *(a) IN GENERAL.—Section 1201 is amended to read*  
 13 *as follows:*

14 **“SEC. 1201. ALTERNATIVE TAX FOR CORPORATIONS.**

15 *“(a) GENERAL RULE.—If for any taxable year a cor-*  
 16 *poration has a net capital gain, then, in lieu of the tax*  
 17 *imposed by sections 11, 511, or 831(a) or (b), there is hereby*  
 18 *imposed a tax (if such tax is less than the tax imposed by*  
 19 *such sections) which shall consist of the sum of—*

20 *“(1) a tax computed on the taxable income re-*  
 21 *duced by the net capital gain, at the rates and in the*  
 22 *manner as if this subsection had not been enacted,*  
 23 *plus*

24 *“(2) the applicable percentage of the net capital*  
 25 *gain (or, if less, taxable income).*

1       “(b) *APPLICABLE PERCENTAGE.*—For purposes of sub-  
 2   section (a), the applicable percentage shall be determined  
 3   in accordance with the following table:

<b>“For taxable years beginning in calendar year—</b>	<b>The applicable percentage is—</b>
2000 .....	34.1
2001 .....	33.9
2002 .....	32.7
2003 .....	31.7
2004 .....	30.8
2005 .....	29.8
2006 .....	29.2
2007 .....	28.0
2008 .....	27.4
2009 .....	26.2
2010 and thereafter .....	25.0.

4       “(c) *CROSS REFERENCES.*—For computation of the al-  
 5   ternative tax—

6               “(1) in the case of life insurance companies, see  
 7   section 801(a)(2),

8               “(2) in the case of regulated investment compa-  
 9   nies and their shareholders, see section 852(b)(3)(A)  
 10   and (D), and

11              “(3) in the case of real estate investment trusts,  
 12   see section 857(b)(3)(A).”

13       (b) *TECHNICAL AMENDMENTS.*—

14              (1) Paragraphs (1) and (2) of section 1445(e)  
 15   are each amended by striking “35 percent” and in-  
 16   serting “the applicable percentage determined under  
 17   section 1201(b) for the calendar year in which the  
 18   payment is made”.



5           (B) The second sentence of section 607(h)(6)(A)  
6       of the Merchant Marine Act, 1936, is amended by  
7       striking “34 percent” and inserting “the applicable  
8       percentage (within the meaning of section 1201(b) of  
9       the Internal Revenue Code of 1986)”.

11           (1) *IN GENERAL.*—*Except as provided in para-*  
12           *graph (2), the amendments made by this section shall*  
13           *apply to taxable years beginning after December 31,*  
14           *1999.*

15 (2) *WITHHOLDING.*—*The amendment made by*  
16 *subsection (b)(1) shall apply to amounts paid after*  
17 *December 31, 1999.*

(a) *IN GENERAL.*—The last sentence of section 55(a), as amended by section 121, is amended by striking “on any taxpayer other than a corporation”.

•HR 2488 RH

1           (1) *IN GENERAL.*—Section 59(a) (relating to al-  
 2           ternative minimum tax foreign tax credit) is amend-  
 3           ed by striking paragraph (2) and by redesignating  
 4           paragraphs (3) and (4) as paragraphs (2) and (3),  
 5           respectively.

6           (2) *CONFORMING AMENDMENT.*—Section  
 7           53(d)(1)(B)(i)(II) is amended by striking “and if sec-  
 8           tion 59(a)(2) did not apply”.

9           (c) *LIMITATION ON USE OF CREDIT FOR PRIOR YEAR*  
 10          *MINIMUM TAX LIABILITY.*—

11           (1) *IN GENERAL.*—Subsection (c) of section 53,  
 12           as amended by section 121, is amended by redesign-  
 13           ating paragraph (2) as paragraph (3) and by in-  
 14           serting after paragraph (1) the following new para-  
 15           graph:

16           “(2) *CORPORATIONS FOR TAXABLE YEARS BEGIN-*  
 17           *NING AFTER 2002.*—In the case of corporation for any  
 18           taxable year beginning after 2002 and before 2008,  
 19           the limitation under paragraph (1) shall be increased  
 20           by the applicable percentage (determined in accord-  
 21           ance with the following table) of the tentative min-  
 22           imum tax for the taxable year.

<b>“For taxable years beginning in calendar year—</b>	<b>The applicable percentage is—</b>
2003 .....	20
2004 .....	30
2005 .....	40
2006 or 2007 .....	50.

1     *In no event shall the limitation determined under this*  
 2     *paragraph be greater than the sum of the tax imposed*  
 3     *by section 55 and the regular tax reduced by the sum*  
 4     *of the credits allowed under subparts A, B, D, E, and*  
 5     *F of this part.”*

6             (2) *CONFORMING AMENDMENTS.—*

7                 (A) *Section 55(e) is amended by striking*  
 8                 *paragraph (5).*

9                 (B) *Paragraph (3) of section 53(c), as re-*  
 10                 *designated by paragraph (1), is amended by*  
 11                 *striking “to a taxpayer other than a corpora-*  
 12                 *tion”.*

13             (d) *EFFECTIVE DATE.—*

14                 (1) *IN GENERAL.—Except as provided in para-*  
 15                 *graphs (2) and (3), the amendments made by this sec-*  
 16                 *tion shall apply to taxable years beginning after De-*  
 17                 *cember 31, 2002.*

18                 (2) *REPEAL OF 90 PERCENT LIMITATION ON FOR-*  
 19                 *EIGN TAX CREDIT.—The amendments made by sub-*  
 20                 *section (b) shall apply to taxable years beginning*  
 21                 *after December 31, 2001.*

22                 (3) *SUBSECTION (c)(2)(A).—The amendment*  
 23                 *made by subsection (c)(2)(A) shall apply to taxable*  
 24                 *years beginning after December 31, 2007.*

1   ***TITLE IV—EDUCATION SAVINGS***  
 2                   ***INCENTIVES***

3   ***SEC. 401. MODIFICATIONS TO EDUCATION INDIVIDUAL RE-***  
 4                   ***TIREMENT ACCOUNTS.***

5       (a) *MAXIMUM ANNUAL CONTRIBUTIONS.*—

6           (1) *IN GENERAL.*—Section 530(b)(1)(A)(iii) (de-  
 7       fining education individual retirement account) is  
 8       amended by striking “\$500” and inserting “\$2,000”.

9           (2) *CONFORMING AMENDMENT.*—Section  
 10       4973(e)(1)(A) is amended by striking “\$500” and in-  
 11       serting “\$2,000”.

12       (b) *TAX-FREE EXPENDITURES FOR ELEMENTARY AND*  
 13       *SECONDARY SCHOOL EXPENSES.*—

14           (1) *IN GENERAL.*—Section 530(b)(2) (defining  
 15       qualified higher education expenses) is amended to  
 16       read as follows:

17           “(2) *QUALIFIED EDUCATION EXPENSES.*—

18               “(A) *IN GENERAL.*—The term ‘qualified  
 19       education expenses’ means—

20                   “(i) qualified higher education ex-  
 21       penses (as defined in section 529(e)(3)), and

22                   “(ii) qualified elementary and sec-  
 23       ondary education expenses (as defined in  
 24       paragraph (4)).

1                   “(B) *QUALIFIED STATE TUITION PRO-*  
 2                   *GRAMS.*—Such term shall include any contribu-  
 3                   *tion to a qualified State tuition program (as de-*  
 4                   *defined in section 529(b)) on behalf of the des-*  
 5                   *ignated beneficiary (as defined in section*  
 6                   *529(e)(1)); but there shall be no increase in the*  
 7                   *investment in the contract for purposes of apply-*  
 8                   *ing section 72 by reason of any portion of such*  
 9                   *contribution which is not includible in gross in-*  
 10                   *come by reason of subsection (d)(2).”*

11                   (2) *QUALIFIED ELEMENTARY AND SECONDARY*  
 12                   *EDUCATION EXPENSES.*—Section 530(b) (relating to  
 13                   *definitions and special rules) is amended by adding*  
 14                   *at the end the following new paragraph:*

15                   “(4) *QUALIFIED ELEMENTARY AND SECONDARY*  
 16                   *EDUCATION EXPENSES.*—

17                   “(A) *IN GENERAL.*—The term ‘qualified ele-  
 18                   *mentary and secondary education expenses’*  
 19                   *means—*

20                   “(i) *expenses for tuition, fees, academic*  
 21                   *tutoring, special needs services, books, sup-*  
 22                   *plies, computer equipment (including re-*  
 23                   *lated software and services), and other*  
 24                   *equipment which are incurred in connection*  
 25                   *with the enrollment or attendance of the*

1           *designated beneficiary of the trust as an ele-*  
 2           *mentary or secondary school student at a*  
 3           *public, private, or religious school, and*

4           “(ii) *expenses for room and board, uni-*  
 5           *forms, transportation, and supplementary*  
 6           *items and services (including extended day*  
 7           *programs) which are required or provided*  
 8           *by a public, private, or religious school in*  
 9           *connection with such enrollment or attend-*  
 10          *ance.*

11          “(B)           *SPECIAL           RULE           FOR*  
 12          *HOMESCHOOLING.—Such term shall include ex-*  
 13          *penses described in subparagraph (A)(i) in con-*  
 14          *nection with education provided by*  
 15          *homeschooling if the requirements of any appli-*  
 16          *cable State or local law are met with respect to*  
 17          *such education.*

18          “(C) *SCHOOL.—The term ‘school’ means*  
 19          *any school which provides elementary education*  
 20          *or secondary education (kindergarten through*  
 21          *grade 12), as determined under State law.”*

22          (3) *CONFORMING AMENDMENTS.—Section 530 is*  
 23          *amended—*

24                (A) *by striking “higher” each place it ap-*  
 25                *pears in subsections (b)(1) and (d)(2), and*

1                   (B) by striking “HIGHER” in the heading  
2                   for subsection (d)(2).

3           (c) *WAIVER OF AGE LIMITATIONS FOR CHILDREN*  
4 *WITH SPECIAL NEEDS.*—Section 530(b)(1) (defining edu-  
5 cation individual retirement account) is amended by add-  
6 ing at the end the following flush sentence:

7           “The age limitations in subparagraphs (A)(ii) and  
8           (E) and paragraphs (5) and (6) of subsection (d)  
9           shall not apply to any designated beneficiary with  
10          special needs (as determined under regulations pre-  
11          scribed by the Secretary).”

12          (d) *ENTITIES PERMITTED TO CONTRIBUTE TO AC-*  
13 *COUNTS.*—Section 530(c)(1) (relating to reduction in per-  
14 mitted contributions based on adjusted gross income) is  
15 amended by striking “The maximum amount which a con-  
16 tributor” and inserting “In the case of a contributor who  
17 is an individual, the maximum amount the contributor”.

18          (e) *TIME WHEN CONTRIBUTIONS DEEMED MADE.*—

19               (1) *IN GENERAL.*—Section 530(b) (relating to  
20 definitions and special rules), as amended by sub-  
21 section (b)(2), is amended by adding at the end the  
22 following new paragraph:

23               “(5) *TIME WHEN CONTRIBUTIONS DEEMED*  
24 *MADE.*—An individual shall be deemed to have made  
25 a contribution to an education individual retirement

1       *account on the last day of the preceding taxable year*  
 2       *if the contribution is made on account of such taxable*  
 3       *year and is made not later than the time prescribed*  
 4       *by law for filing the return for such taxable year (not*  
 5       *including extensions thereof).”*

6               (2) *EXTENSION OF TIME TO RETURN EXCESS*  
 7       *CONTRIBUTIONS.—Subparagraph (C) of section*  
 8       *530(d)(4) (relating to additional tax for distributions*  
 9       *not used for educational expenses) is amended—*

10               (A) *by striking clause (i) and inserting the*  
 11       *following new clause:*

12               “(i) *such distribution is made before*  
 13       *the 1st day of the 6th month of the taxable*  
 14       *year following the taxable year, and”, and*

15               (B) *by striking “DUE DATE OF RETURN” in*  
 16       *the heading and inserting “CERTAIN DATE”.*

17       (f) *COORDINATION WITH HOPE AND LIFETIME LEARN-*  
 18       *ING CREDITS AND QUALIFIED TUITION PROGRAMS.—*

19               (1) *IN GENERAL.—Section 530(d)(2)(C) is*  
 20       *amended to read as follows:*

21               “(C) *COORDINATION WITH HOPE AND LIFE-*  
 22       *TIME LEARNING CREDITS AND QUALIFIED TUI-*  
 23       *TION PROGRAMS.—For purposes of subparagraph*  
 24       (A)—



1           “(i) *CREDIT COORDINATION.*—*The*  
 2           *total amount of qualified higher education*  
 3           *expenses with respect to an individual for*  
 4           *the taxable year shall be reduced—*

5                     “(I) *as provided in section*  
 6                     *25A(g)(2), and*

7                     “(II) *by the amount of such ex-*  
 8                     *penses which were taken into account*  
 9                     *in determining the credit allowed to*  
 10                    *the taxpayer or any other person under*  
 11                    *section 25A.*

12           “(ii) *COORDINATION WITH QUALIFIED*  
 13           *TUITION PROGRAMS.*—*If, with respect to an*  
 14           *individual for any taxable year—*

15                     “(I) *the aggregate distributions*  
 16                     *during such year to which subpara-*  
 17                     *graph (A) and section 529(c)(3)(B)*  
 18                     *apply, exceed*

19                     “(II) *the total amount of qualified*  
 20                     *education expenses (after the applica-*  
 21                     *tion of clause (i)) for such year,*  
 22           *the taxpayer shall allocate such expenses*  
 23           *among such distributions for purposes of de-*  
 24           *termining the amount of the exclusion*

1                   under subparagraph (A) and section  
2                   529(c)(3)(B).”

3                   (2) CONFORMING AMENDMENTS.—

4                   (A) Subsection (e) of section 25A is amend-  
5                   ed to read as follows:

6                   “(e) ELECTION NOT TO HAVE SECTION APPLY.—A  
7                   taxpayer may elect not to have this section apply with re-  
8                   spect to the qualified tuition and related expenses of an in-  
9                   dividual for any taxable year.”

10                  (B) Section 135(d)(2)(A) is amended by  
11                  striking “allowable” and inserting “allowed”.

12                  (C) Section 530(d)(2)(D) is amended—

13                         (i) by striking “or credit”, and

14                         (ii) by striking “CREDIT OR” in the  
15                         heading.

16                  (D) Section 4973(e)(1) is amended by add-  
17                  ing “and” at the end of subparagraph (A), by  
18                  striking subparagraph (B), and by redesignating  
19                  subparagraph (C) as subparagraph (B).

20                  (g) RENAMING EDUCATION INDIVIDUAL RETIREMENT  
21                  ACCOUNTS AS EDUCATION SAVINGS ACCOUNTS.—

22                  (1) IN GENERAL.—

23                         (A) Section 530 (as amended by the pre-  
24                         ceding provisions of this section) is amended by  
25                         striking “education individual retirement ac-

count” each place it appears and inserting “education savings account”.

(B) The heading for paragraph (1) of section 530(b) is amended by striking “EDUCATION INDIVIDUAL RETIREMENT ACCOUNT” and inserting “EDUCATION SAVINGS ACCOUNT”.

(C) The heading for section 530 is amended to read as follows:

“SEC. 530. EDUCATION SAVINGS ACCOUNTS.”.

(D) The item in the table of contents for part VII of subchapter F of chapter 1 relating to section 530 is amended to read as follows:

“Sec. 530. Education savings accounts.”.

(2) CONFORMING AMENDMENTS.—

(A) The following provisions are each amended by striking “education individual retirement” each place it appears and inserting “education savings”:

(i) Section 25A(e)(2).

(ii) Section 26(b)(2)(E).

(iii) Section 72(e)(9).

(iv) Section 135(c)(2)(C).

(v) Subsections (a) and (e) of section 4973.

(vi) Subsections (c) and (e) of section 4975.

1 (vii) Section 6693(a)(2)(D).

2 (B) The headings for each of the following  
3 provisions are amended by striking “EDUCATION  
4 INDIVIDUAL RETIREMENT ACCOUNTS” each place  
5 it appears and inserting “EDUCATION SAVINGS  
6 ACCOUNTS”.

7 (i) Section 72(e)(9).

8 (ii) Section 135(c)(2)(C).

9 (iii) Section 4973(e).

10 (iv) Section 4975(c)(5).

11 (h) *EFFECTIVE DATES.*—

12 (1) *IN GENERAL.*—Except as provided in para-  
13 graph (2), the amendments made by this section shall  
14 apply to taxable years beginning after December 31,  
15 2000.

16 (2) *SUBSECTION (g).*—The amendments made by  
17 subsection (g) shall take effect on the date of the en-  
18 actment of this Act.

19 **SEC. 402. MODIFICATIONS TO QUALIFIED TUITION PRO-**  
20 **GRAMS.**

21 (a) *ELIGIBLE EDUCATIONAL INSTITUTIONS PER-*  
22 *MITTED TO MAINTAIN QUALIFIED TUITION PROGRAMS.*—

23 (1) *IN GENERAL.*—Section 529(b)(1) (defining  
24 qualified State tuition program) is amended by in-  
25 serting “or by 1 or more eligible educational institu-

tions” after “maintained by a State or agency or instrumentality thereof”.

(2) *PRIVATE QUALIFIED TUITION PROGRAMS LIMITED TO BENEFIT PLANS.*—Clause (ii) of section 529(b)(1)(A) is amended by inserting “in the case of a program established and maintained by a State or agency or instrumentality thereof,” before “may make”.

(3) *CONFORMING AMENDMENTS.*—

(A) Sections 72(e)(9), 135(c)(2)(C), 135(d)(1)(D), 529, 530(b)(2)(B), 4973(e), and 6693(a)(2)(C) are each amended by striking “qualified State tuition” each place it appears and inserting “qualified tuition”.

(B) The headings for sections 72(e)(9) and 135(c)(2)(C) are each amended by striking “QUALIFIED STATE TUITION” and inserting “QUALIFIED TUITION”.

(C) The headings for sections 529(b) and 530(b)(2)(B) are each amended by striking “QUALIFIED STATE TUITION” and inserting “QUALIFIED TUITION”.

(D) The heading for section 529 is amended by striking “**STATE**”.

1           (E) *The item relating to section 529 in the*  
 2           *table of sections for part VIII of subchapter F of*  
 3           *chapter 1 is amended by striking “State”.*

4           (b) *EXCLUSION FROM GROSS INCOME OF EDUCATION*  
 5           *DISTRIBUTIONS FROM QUALIFIED TUITION PROGRAMS.—*

6           (1) *IN GENERAL.—Section 529(c)(3)(B) (relating*  
 7           *to distributions) is amended to read as follows:*

8                     “(B) *DISTRIBUTIONS FOR QUALIFIED HIGH-*  
 9                     *ER EDUCATION EXPENSES.—*

10                    “(i) *IN GENERAL.—For purposes of*  
 11                    *this paragraph—*

12                             “(I) *no amount shall be includible*  
 13                             *in gross income under subparagraph*  
 14                             *(A) by reason of a distribution which*  
 15                             *consists of providing a benefit to the*  
 16                             *distributee which, if paid for by the*  
 17                             *distributee, would constitute payment*  
 18                             *of a qualified higher education expense,*  
 19                             *and*

20                            “(II) *in the case of distributions*  
 21                            *not described in subclause (I), the*  
 22                            *amount otherwise includible in gross*  
 23                            *income under subparagraph (A) shall*  
 24                            *be reduced by an amount which bears*  
 25                            *the same ratio to the otherwise includ-*

1            *ible amount as the qualified higher*  
 2            *education expenses (other than expenses*  
 3            *paid by distributions described in sub-*  
 4            *clause (I)) bear to the aggregate of such*  
 5            *distributions.*

6            “(ii) *EXCEPTION FOR INSTITUTIONAL*  
 7            *PROGRAMS.—In the case of any taxable*  
 8            *year beginning before January 1, 2004,*  
 9            *clause (i) shall not apply with respect to*  
 10            *any distribution during such taxable year*  
 11            *under a qualified tuition program estab-*  
 12            *lished and maintained by 1 or more eligible*  
 13            *educational institutions.*

14            “(iii) *IN-KIND DISTRIBUTIONS.—Any*  
 15            *benefit furnished to a designated beneficiary*  
 16            *under a qualified tuition program shall be*  
 17            *treated as a distribution to the beneficiary*  
 18            *for purposes of this paragraph.*

19            “(iv) *COORDINATION WITH HOPE AND*  
 20            *LIFETIME LEARNING CREDITS.—The total*  
 21            *amount of qualified higher education ex-*  
 22            *penses with respect to an individual for the*  
 23            *taxable year shall be reduced—*

24                    *“(I) as provided in section*  
 25                    *25A(g)(2), and*

1                   “(II) by the amount of such ex-  
 2                   penses which were taken into account  
 3                   in determining the credit allowed to  
 4                   the taxpayer or any other person under  
 5                   section 25A.

6                   “(v) COORDINATION WITH EDUCATION  
 7                   SAVINGS ACCOUNTS.—If, with respect to an  
 8                   individual for any taxable year—

9                   “(I) the aggregate distributions to  
 10                  which clause (i) and section  
 11                  530(d)(2)(A) apply, exceed

12                  “(II) the total amount of qualified  
 13                  higher education expenses otherwise  
 14                  taken into account under clause (i)  
 15                  (after the application of clause (iv)) for  
 16                  such year,

17                  the taxpayer shall allocate such expenses  
 18                  among such distributions for purposes of de-  
 19                  termining the amount of the exclusion  
 20                  under clause (i) and section 530(d)(2)(A).”

21                  (2) CONFORMING AMENDMENTS.—

22                  (A) Section 135(d)(2)(B) is amended by  
 23                  striking “the exclusion under section 530(d)(2)”  
 24                  and inserting “the exclusions under sections  
 25                  529(c)(3)(B)(i) and 530(d)(2)”.



1                   (B) Section 221(e)(2)(A) is amended by in-  
 2                   serting “529,” after “135,”.

3           (c) *ROLLOVER TO DIFFERENT PROGRAM FOR BENEFIT*  
 4 *OF SAME DESIGNATED BENEFICIARY.*—Section  
 5 529(c)(3)(C) (relating to change in beneficiaries) is  
 6 amended—

7           (1) by striking “transferred to the credit” in  
 8           clause (i) and inserting “transferred—

9                               “(I) to another qualified tuition  
 10                              program for the benefit of the des-  
 11                             ignated beneficiary, or

12                           “(II) to the credit”,

13           (2) by adding at the end the following new  
 14           clause:

15                           “(iii) *LIMITATION ON CERTAIN ROLL-*  
 16                           *OVERS.*—Clause (i)(I) shall not apply to  
 17                           any amount transferred with respect to a  
 18                           designated beneficiary if, at any time dur-  
 19                           ing the 1-year period ending on the day of  
 20                           such transfer, any other amount was trans-  
 21                           ferred which was not includible in gross in-  
 22                           come by reason of clause (i)(I).”, and

23           (3) by inserting “OR PROGRAMS” after “BENE-  
 24           FICIARIES” in the heading.

1       (d) *MEMBER OF FAMILY INCLUDES FIRST COUSIN.*—  
 2       Section 529(e)(2) (defining member of family) is amended  
 3       by striking “and” at the end of subparagraph (B), by strik-  
 4       ing the period at the end of subparagraph (C) and by in-  
 5       serting “; and”, and by adding at the end the following  
 6       new subparagraph:

7                       “(D) any first cousin of such beneficiary.”

8       (e) *DEFINITION OF QUALIFIED HIGHER EDUCATION*  
 9       *EXPENSES.*—

10               (1) *IN GENERAL.*—Subparagraph (A) of section  
 11       529(e)(3) (relating to definition of qualified higher  
 12       education expenses) is amended to read as follows:

13                       “(A) *IN GENERAL.*—The term ‘qualified  
 14       higher education expenses’ means—

15                       “(i) tuition and fees required for the  
 16       enrollment or attendance of a designated  
 17       beneficiary at an eligible educational insti-  
 18       tution for courses of instruction of such ben-  
 19       eficiary at such institution, and

20                       “(ii) expenses for books, supplies, and  
 21       equipment which are incurred in connection  
 22       with such enrollment or attendance, but not  
 23       to exceed the allowance for books and sup-  
 24       plies included in the cost of attendance (as  
 25       defined in section 472 of the Higher Edu-

1                    *cation Act of 1965 (20 U.S.C. 1087ll), as in*  
 2                    *effect on the date of enactment of the Finan-*  
 3                    *cial Freedom Act of 1999) as determined by*  
 4                    *the eligible educational institution.”.*

5                    (2) *EXCEPTION FOR EDUCATION INVOLVING*  
 6                    *SPORTS, ETC..—Paragraph (3) of section 529(e) (re-*  
 7                    *lating to qualified higher education expenses) is*  
 8                    *amended by adding at the end the following new sub-*  
 9                    *paragraph:*

10                    “(C) *EXCEPTION FOR EDUCATION INVOLV-*  
 11                    *ING SPORTS, ETC..—The term ‘qualified higher*  
 12                    *education expenses’ shall not include expenses*  
 13                    *with respect to any course or other education in-*  
 14                    *volving sports, games, or hobbies unless such*  
 15                    *course or other education is part of the bene-*  
 16                    *ficiary’s degree program or is taken to acquire or*  
 17                    *improve job skills of the beneficiary.”.*

18                    (f) *EFFECTIVE DATES.—*

19                    (1) *IN GENERAL.—Except as provided in para-*  
 20                    *graph (2), the amendments made by this section shall*  
 21                    *apply to taxable years beginning after December 31,*  
 22                    *2000.*

23                    (2) *QUALIFIED HIGHER EDUCATION EX-*  
 24                    *PENSES.—The amendments made by subsection (e)*

1       *shall apply to amounts paid for education furnished*  
 2       *after December 31, 1999.*

3   **SEC. 403. EXCLUSION OF CERTAIN AMOUNTS RECEIVED**  
 4                   **UNDER THE NATIONAL HEALTH SERVICE**  
 5                   **CORPS SCHOLARSHIP PROGRAM, THE F. ED-**  
 6                   **WARD HEBERT ARMED FORCES HEALTH PRO-**  
 7                   **FESSIONS SCHOLARSHIP AND FINANCIAL AS-**  
 8                   **SISTANCE PROGRAM, AND CERTAIN OTHER**  
 9                   **PROGRAMS.**

10       *(a) IN GENERAL.—Section 117(c) (relating to the ex-*  
 11       *clusion from gross income amounts received as a qualified*  
 12       *scholarship) is amended—*

13               *(1) by striking “Subsections (a)” and inserting*  
 14       *the following:*

15               *“(1) IN GENERAL.—Except as provided in para-*  
 16       *graph (2), subsections (a)”*, and

17               *(2) by adding at the end the following new para-*  
 18       *graph:*

19               *“(2) EXCEPTIONS.—Paragraph (1) shall not*  
 20       *apply to any amount received by an individual*  
 21       *under—*

22               *“(A) the National Health Service Corps*  
 23       *Scholarship program under section*  
 24       *338A(g)(1)(A) of the Public Health Service Act,*

1           “(B) the Armed Forces Health Professions  
2           Scholarship and Financial Assistance program  
3           under subchapter I of chapter 105 of title 10,  
4           United States Code,

5           “(C) the National Institutes of Health Un-  
6           dergraduate Scholarship program under section  
7           487D of the Public Health Service Act, or

8           “(D) any State program determined by the  
9           Secretary to have substantially similar objectives  
10          as such programs.”

11       (b) *EFFECTIVE DATES.*—

12           (1) *IN GENERAL.*—*Except as provided in para-*  
13          *graph (2), the amendments made by subsection (a)*  
14          *shall apply to amounts received in taxable years be-*  
15          *ginning after December 31, 1993.*

16           (2) *STATE PROGRAMS.*—*Section 117(c)(2)(D) of*  
17          *the Internal Revenue Code of 1986 (as added by the*  
18          *amendments made by subsection (a)) shall apply to*  
19          *amounts received in taxable years beginning after De-*  
20          *cember 31, 1999.*

21       **SEC. 404. ADDITIONAL INCREASE IN ARBITRAGE REBATE**  
22                               **EXCEPTION FOR GOVERNMENTAL BONDS**  
23                               **USED TO FINANCE EDUCATIONAL FACILITIES.**

24           (a) *IN GENERAL.*—*Section 148(f)(4)(D)(vii) (relating*  
25          *to increase in exception for bonds financing public school*

1 capital expenditures) is amended by striking “\$5,000,000”  
 2 the second place it appears and inserting “\$10,000,000”.

3 (b) *EFFECTIVE DATE.*—The amendment made by sub-  
 4 section (a) shall apply to obligations issued in calendar  
 5 years beginning after December 31, 1999.

6 **SEC. 405. MODIFICATION OF ARBITRAGE REBATE RULES AP-**  
 7 **PLICABLE TO PUBLIC SCHOOL CONSTRUC-**  
 8 **TION BONDS.**

9 (a) *IN GENERAL.*—Subparagraph (C) of section  
 10 148(f)(4) is amended by adding at the end the following  
 11 new clause:

12 “(xviii) 4-YEAR SPENDING REQUIRE-  
 13 MENT FOR PUBLIC SCHOOL CONSTRUCTION  
 14 ISSUE.—

15 “(I) *IN GENERAL.*—In the case of  
 16 a public school construction issue, the  
 17 spending requirements of clause (ii)  
 18 shall be treated as met if at least 10  
 19 percent of the available construction  
 20 proceeds of the construction issue are  
 21 spent for the governmental purposes of  
 22 the issue within the 1-year period be-  
 23 ginning on the date the bonds are  
 24 issued, 30 percent of such proceeds are  
 25 spent for such purposes within the 2-

1 *year period beginning on such date, 60*  
2 *percent of such proceeds are spent for*  
3 *such purposes within the 3-year period*  
4 *beginning on such date, and 100 per-*  
5 *cent of such proceeds are spent for such*  
6 *purposes within the 4-year period be-*  
7 *ginning on such date.*

8 “(II) *PUBLIC SCHOOL CONSTRUC-*  
9 *TION ISSUE.*—*For purposes of this*  
10 *clause, the term ‘public school construc-*  
11 *tion issue’ means any construction*  
12 *issue if no bond which is part of such*  
13 *issue is a private activity bond and all*  
14 *of the available construction proceeds*  
15 *of such issue are to be used for the con-*  
16 *struction (as defined in clause (iv)) of*  
17 *public school facilities to provide edu-*  
18 *cation or training below the postsec-*  
19 *ondary level or for the acquisition of*  
20 *land that is functionally related and*  
21 *subordinate to such facilities.*

22 “(III) *OTHER RULES TO APPLY.*—  
23 *Rules similar to the rules of the pre-*  
24 *ceding provisions of this subparagraph*

1                   *which apply to clause (ii) also apply*  
2                   *to this clause.”.*

3           (b) *EFFECTIVE DATE.*—*The amendment made by this*  
4   *section shall apply to obligations issued after December 31,*  
5   *1999.*

6   **SEC. 406. REPEAL OF 60-MONTH LIMITATION ON DEDUC-**  
7                   **TION FOR INTEREST ON EDUCATION LOANS.**

8           (a) *IN GENERAL.*—*Section 221 (relating to interest on*  
9   *education loans) is amended by striking subsection (d) and*  
10   *by redesignating subsections (e), (f), and (g) as subsections*  
11   *(d), (e), and (f), respectively.*

12          (b) *CONFORMING AMENDMENT.*—*Subsection (e) of sec-*  
13   *tion 6050S is amended by striking “section 221(e)(1)” and*  
14   *inserting “section 221(d)(1)”.*

15          (c) *EFFECTIVE DATE.*—*The amendments made by this*  
16   *section shall apply to loan interest payments made after*  
17   *December 31, 1999, in taxable years ending after such date.*



# **TITLE V—HEALTH CARE PROVISIONS**

## **SEC. 501. DEDUCTION FOR HEALTH AND LONG-TERM CARE INSURANCE COSTS OF INDIVIDUALS NOT PARTICIPATING IN EMPLOYER-SUBSIDIZED HEALTH PLANS.**

*(a) IN GENERAL.—Part VII of subchapter B of chapter 1 is amended by redesignating section 222 as section 223 and by inserting after section 221 the following new section:*

### **“SEC. 222. HEALTH AND LONG-TERM CARE INSURANCE COSTS.**

*“(a) IN GENERAL.—In the case of an individual, there shall be allowed as a deduction an amount equal to the applicable percentage of the amount paid during the taxable year for insurance which constitutes medical care for the taxpayer, the taxpayer’s spouse, and dependents.*

*“(b) APPLICABLE PERCENTAGE.—For purposes of subsection (a), the applicable percentage shall be determined in accordance with the following table:*

<b>“For taxable years beginning in calendar year—</b>	<b>The applicable percentage is—</b>
2001 .....	25
2002 .....	40
2003, 2004, 2005, and 2006 .....	50
2007 .....	75
2008 and thereafter .....	100.

*“(c) LIMITATION BASED ON OTHER COVERAGE.—*

*“(1) COVERAGE UNDER CERTAIN SUBSIDIZED  
EMPLOYER PLANS.—*

1           “(A) *IN GENERAL.*—Subsection (a) shall not  
2           *apply to any taxpayer for any calendar month*  
3           *for which the taxpayer participates in any*  
4           *health plan maintained by any employer of the*  
5           *taxpayer or of the spouse of the taxpayer if 50*  
6           *percent or more of the cost of coverage under*  
7           *such plan (determined under section 4980B) is*  
8           *paid or incurred by the employer.*

9           “(B) *EMPLOYER CONTRIBUTIONS TO CAFETERIA PLANS, FLEXIBLE SPENDING ARRANGEMENTS, AND MEDICAL SAVINGS ACCOUNTS.*—Em-  
10           *ployer contributions to a cafeteria plan, a flexi-*  
11           *ble spending or similar arrangement, or a med-*  
12           *ical savings account which are excluded from*  
13           *gross income under section 106 shall be treated*  
14           *for purposes of subparagraph (A) as paid by the*  
15           *employer.*

16           “(C) *AGGREGATION OF PLANS OF EM-*  
17           *PLOYER.*—A health plan which is not otherwise  
18           *described in subparagraph (A) shall be treated as*  
19           *described in such subparagraph if such plan*  
20           *would be so described if all health plans of per-*  
21           *sons treated as a single employer under sub-*  
22           *sections (b), (c), (m), or (o) of section 414 were*  
23           *treated as one health plan.*  
24  
25

1                   “(D) *SEPARATE APPLICATION TO HEALTH*  
 2                   *INSURANCE AND LONG-TERM CARE INSURANCE.—*  
 3                   *Subparagraphs (A) and (C) shall be applied sep-*  
 4                   *arately with respect to—*

5                   “(i) *plans which include primarily*  
 6                   *coverage for qualified long-term care serv-*  
 7                   *ices or are qualified long-term care insur-*  
 8                   *ance contracts, and*

9                   “(ii) *plans which do not include such*  
 10                   *coverage and are not such contracts.*

11                   “(2) *COVERAGE UNDER CERTAIN FEDERAL PRO-*  
 12                   *GRAMS.—*

13                   “(A) *IN GENERAL.—*Subsection (a) *shall not*  
 14                   *apply to any amount paid for any coverage for*  
 15                   *an individual for any calendar month if, as of*  
 16                   *the first day of such month, the individual is*  
 17                   *covered under any medical care program de-*  
 18                   *scribed in—*

19                   “(i) *title XVIII, XIX, or XXI of the So-*  
 20                   *cial Security Act,*

21                   “(ii) *chapter 55 of title 10, United*  
 22                   *States Code,*

23                   “(iii) *chapter 17 of title 38, United*  
 24                   *States Code,*

1                   “(iv) chapter 89 of title 5, United  
2                   States Code, or

3                   “(v) the Indian Health Care Improve-  
4                   ment Act.

5                   “(B) EXCEPTIONS.—

6                   “(i) QUALIFIED LONG-TERM CARE.—  
7                   Subparagraph (A) shall not apply to  
8                   amounts paid for coverage under a qualified  
9                   long-term care insurance contract.

10                  “(ii) CONTINUATION COVERAGE OF  
11                  FEHBP.—Subparagraph (A)(iv) shall not  
12                  apply to coverage which is comparable to  
13                  continuation coverage under section 4980B.

14                  “(d) LONG-TERM CARE DEDUCTION LIMITED TO  
15                  QUALIFIED LONG-TERM CARE INSURANCE CONTRACTS.—  
16                  In the case of a qualified long-term care insurance contract,  
17                  only eligible long-term care premiums (as defined in section  
18                  213(d)(10)) may be taken into account under subsection (a).

19                  “(e) SPECIAL RULES.—

20                  “(1) COORDINATION WITH DEDUCTION FOR  
21                  HEALTH INSURANCE COSTS OF SELF-EMPLOYED INDIVIDUALS.—The amount taken into account by the tax-  
22                  payer in computing the deduction under section  
23                  162(l) shall not be taken into account under this sec-  
24                  tion.  
25

1           “(2) *COORDINATION WITH MEDICAL EXPENSE*  
 2           *DEDUCTION.*—*The amount taken into account by the*  
 3           *taxpayer in computing the deduction under this sec-*  
 4           *tion shall not be taken into account under section*  
 5           *213.*

6           “(f) *REGULATIONS.*—*The Secretary shall prescribe*  
 7           *such regulations as may be appropriate to carry out this*  
 8           *section, including regulations requiring employers to report*  
 9           *to their employees and the Secretary such information as*  
 10          *the Secretary determines to be appropriate.”*

11          (b) *DEDUCTION ALLOWED WHETHER OR NOT TAX-*  
 12          *PAYER ITEMIZES OTHER DEDUCTIONS.*—*Subsection (a) of*  
 13          *section 62 is amended by inserting after paragraph (17)*  
 14          *the following new item:*

15                 “(18) *HEALTH AND LONG-TERM CARE INSUR-*  
 16                 *ANCE COSTS.*—*The deduction allowed by section 222.”*

17          (c) *CLERICAL AMENDMENT.*—*The table of sections for*  
 18          *part VII of subchapter B of chapter 1 is amended by strik-*  
 19          *ing the last item and inserting the following new items:*

“Sec. 222. *Health and long-term care insurance costs.*  
 “Sec. 223. *Cross reference.*”

20          (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 21          *section shall apply to taxable years beginning after Decem-*  
 22          *ber 31, 2000.*

1 **SEC. 502. LONG-TERM CARE INSURANCE PERMITTED TO BE**  
 2 **OFFERED UNDER CAFETERIA PLANS AND**  
 3 **FLEXIBLE SPENDING ARRANGEMENTS.**

4 (a) *CAFETERIA PLANS.*—Subsection (f) of section 125  
 5 (defining qualified benefits) is amended by inserting before  
 6 the period at the end “unless such product is a qualified  
 7 long-term care insurance contract (as defined in section  
 8 7702B)”.

9 (b) *FLEXIBLE SPENDING ARRANGEMENTS.*—Section  
 10 106 (relating to contributions by employer to accident and  
 11 health plans) is amended by striking subsection (c).

12 (c) *EFFECTIVE DATE.*—The amendments made by this  
 13 section shall apply to taxable years beginning after Decem-  
 14 ber 31, 2000.

15 **SEC. 503. EXPANSION OF AVAILABILITY OF MEDICAL SAV-**  
 16 **INGS ACCOUNTS.**

17 (a) *REPEAL OF LIMITATIONS ON NUMBER OF MEDICAL*  
 18 *SAVINGS ACCOUNTS.*—

19 (1) *IN GENERAL.*—Subsections (i) and (j) of sec-  
 20 tion 220 are hereby repealed.

21 (2) *CONFORMING AMENDMENT.*—Paragraph (1)  
 22 of section 220(c) is amended by striking subpara-  
 23 graph (D).

24 (b) *ALL EMPLOYERS MAY OFFER MEDICAL SAVINGS*  
 25 *ACCOUNTS.*—

1           (1) *IN GENERAL.*—Subclause (I) of section  
 2           220(c)(1)(A)(iii) (defining eligible individual) is  
 3           amended by striking “and such employer is a small  
 4           employer”.

5           (2) *CONFORMING AMENDMENTS.*—

6                   (A) Paragraph (1) of section 220(c) is  
 7           amended by striking subparagraph (C).

8                   (B) Subsection (c) of section 220 is amend-  
 9           ed by striking paragraph (4) and by redesign-  
 10          ating paragraph (5) as paragraph (4).

11          (c) *INCREASE IN AMOUNT OF DEDUCTION ALLOWED*  
 12 *FOR CONTRIBUTIONS TO MEDICAL SAVINGS ACCOUNTS.*—

13           (1) *IN GENERAL.*—Paragraph (2) of section  
 14          220(b) is amended to read as follows:

15                   “(2) *MONTHLY LIMITATION.*—The monthly limi-  
 16          tation for any month is the amount equal to  $\frac{1}{12}$  of  
 17          the annual deductible (as of the first day of such  
 18          month) of the individual’s coverage under the high de-  
 19          ductible health plan.”.

20           (2) *CONFORMING AMENDMENT.*—Clause (ii) of  
 21          section 220(d)(1)(A) is amended by striking “75 per-  
 22          cent of”.

23          (d) *BOTH EMPLOYERS AND EMPLOYEES MAY CON-*  
 24 *TRIBUTE TO MEDICAL SAVINGS ACCOUNTS.*—Paragraph  
 25          (5) of section 220(b) is amended to read as follows:

1           “(5) *COORDINATION WITH EXCLUSION FOR EM-*  
 2           *PLOYER CONTRIBUTIONS.—The limitation which*  
 3           *would (but for this paragraph) apply under this sub-*  
 4           *section to the taxpayer for any taxable year shall be*  
 5           *reduced (but not below zero) by the amount which*  
 6           *would (but for section 106(b)) be includible in the*  
 7           *taxpayer’s gross income for such taxable year.”.*

8           *(e) REDUCTION OF PERMITTED DEDUCTIBLES UNDER*  
 9           *HIGH DEDUCTIBLE HEALTH PLANS.—*

10           *(1) IN GENERAL.—Subparagraph (A) of section*  
 11           *220(c)(2) (defining high deductible health plan) is*  
 12           *amended—*

13                     *(A) by striking “\$1,500” in clause (i) and*  
 14                     *inserting “\$1,000”, and*

15                     *(B) by striking “\$3,000” in clause (ii) and*  
 16                     *inserting “\$2,000”.*

17           *(2) CONFORMING AMENDMENT.—Subsection (g)*  
 18           *of section 220 is amended to read as follows:*

19           *“(g) COST-OF-LIVING ADJUSTMENT.—*

20                     *“(1) IN GENERAL.—In the case of any taxable*  
 21                     *year beginning in a calendar year after 1998, each*  
 22                     *dollar amount in subsection (c)(2) shall be increased*  
 23                     *by an amount equal to—*

24                             *“(A) such dollar amount, multiplied by*



1           “(B) the cost-of-living adjustment deter-  
 2           mined under section 1(f)(3) for the calendar year  
 3           in which such taxable year begins by sub-  
 4           stituting ‘calendar year 1997’ for ‘calendar year  
 5           1992’ in subparagraph (B) thereof.

6           “(2) SPECIAL RULES.—In the case of the \$1,000  
 7           amount in subsection (c)(2)(A)(i) and the \$2,000  
 8           amount in subsection (c)(2)(A)(ii), paragraph (1)(B)  
 9           shall be applied by substituting ‘calendar year 1999’  
 10          for ‘calendar year 1997’.

11          “(3) ROUNDING.—If any increase under para-  
 12          graph (1) or (2) is not a multiple of \$50, such in-  
 13          crease shall be rounded to the nearest multiple of \$50.

14          (f) MEDICAL SAVINGS ACCOUNTS MAY BE OFFERED  
 15          UNDER CAFETERIA PLANS.—Subsection (f) of section 125  
 16          is amended by striking “106(b),”.

17          (g) EFFECTIVE DATE.—The amendments made by this  
 18          section shall apply to taxable years beginning after Decem-  
 19          ber 31, 2000.

20       **SEC. 504. ADDITIONAL PERSONAL EXEMPTION FOR TAX-**  
 21               **PAYER CARING FOR ELDERLY FAMILY MEM-**  
 22               **BER IN TAXPAYER’S HOME.**

23          (a) IN GENERAL.—Section 151 (relating to allowance  
 24          of deductions for personal exemptions) is amended by add-  
 25          ing at the end redesignating subsection (e) as subsection (f)

1 *and by inserting after subsection (d) the following new sub-*  
 2 *section:*

3       “(e) *ADDITIONAL EXEMPTION FOR CERTAIN ELDERLY*  
 4 *FAMILY MEMBERS RESIDING WITH TAXPAYER.*—

5               “(1) *IN GENERAL.*—*An exemption of the exemp-*  
 6 *tion amount for each qualified family member of the*  
 7 *taxpayer.*

8               “(2) *QUALIFIED FAMILY MEMBER.*—*For purposes*  
 9 *of this subsection, the term ‘qualified family member’*  
 10 *means, with respect to any taxable year, any*  
 11 *individual—*

12                       “(A) *who is an ancestor of the taxpayer or*  
 13 *of the taxpayer’s spouse or who is the spouse of*  
 14 *any such ancestor,*

15                       “(B) *who is a member for the entire taxable*  
 16 *year of a household maintained by the taxpayer,*  
 17 *and*

18                       “(C) *who has been certified, before the due*  
 19 *date for filing the return of tax for the taxable*  
 20 *year (without extensions), by a physician (as de-*  
 21 *defined in section 1861(r)(1) of the Social Security*  
 22 *Act) as being an individual with long-term care*  
 23 *needs described in paragraph (3) for a period—*

24                               “(i) *which is at least 180 consecutive*  
 25 *days, and*

1                   “(ii) a portion of which occurs within  
2                   the taxable year.

3       Such term shall not include any individual otherwise  
4       meeting the requirements of the preceding sentence  
5       unless within the 39½ month period ending on such  
6       due date (or such other period as the Secretary pre-  
7       scribes) a physician (as so defined) has certified that  
8       such individual meets such requirements.

9                   “(3) INDIVIDUALS WITH LONG-TERM CARE  
10       NEEDS.—An individual is described in this para-  
11       graph if the individual—

12                   “(A) is unable to perform (without substan-  
13                   tial assistance from another individual) at least  
14                   2 activities of daily living (as defined in section  
15                   7702B(c)(2)(B)) due to a loss of functional ca-  
16                   pacity, or

17                   “(B) requires substantial supervision to  
18                   protect such individual from threats to health  
19                   and safety due to severe cognitive impairment  
20                   and is unable to perform, without reminding or  
21                   cuing assistance, at least 1 activity of at least 1  
22                   activity of daily living (as so defined) or to the  
23                   extent provided in regulations prescribed by the  
24                   Secretary (in consultation with the Secretary of

1           *Health and Human Services), is unable to en-*  
 2           *gage in age appropriate activities.*

3           “(4) *SPECIAL RULES.*—*Rules similar to the rules*  
 4           *of paragraphs (1), (2), (3), (4), and (5) of section*  
 5           *21(e) shall apply for purposes of this subsection.”*

6           (b) *EFFECTIVE DATE.*—*The amendments made by this*  
 7           *section shall apply to taxable years beginning after Decem-*  
 8           *ber 31, 1999.*

9   **SEC. 505. EXPANDED HUMAN CLINICAL TRIALS QUALIFYING**  
 10           **FOR ORPHAN DRUG CREDIT.**

11           (a) *IN GENERAL.*—*Subclause (I) of section*  
 12           *45C(b)(2)(A)(ii) is amended to read as follows:*

13                               *“(I) after the date that the appli-*  
 14                               *cation is filed for designation under*  
 15                               *such section 526, and”.*

16           (b) *CONFORMING AMENDMENT.*—*Clause (i) of section*  
 17           *45C(b)(2)(A) is amended by inserting “which is” before*  
 18           *“being” and by inserting before the comma at the end “and*  
 19           *which is designated under section 526 of such Act”.*

20           (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 21           *section shall apply to amounts paid or incurred after De-*  
 22           *cember 31, 1999.*

1 **SEC. 506. INCLUSION OF CERTAIN VACCINES AGAINST**  
 2 **STREPTOCOCCUS PNEUMONIAE TO LIST OF**  
 3 **TAXABLE VACCINES.**

4 (a) *IN GENERAL.*—Section 4132(a)(1) (defining tax-  
 5 able vaccine) is amended by adding at the end the following  
 6 new subparagraph:

7 “(L) Any conjugate vaccine against strepto-  
 8 coccus pneumoniae.”

9 (b) *EFFECTIVE DATE.*—

10 (1) *SALES.*—The amendment made by this sec-  
 11 tion shall apply to vaccine sales beginning on the day  
 12 after the date on which the Centers for Disease Con-  
 13 trol makes a final recommendation for routine ad-  
 14 ministration to children of any conjugate vaccine  
 15 against streptococcus pneumoniae.

16 (2) *DELIVERIES.*—For purposes of paragraph  
 17 (1), in the case of sales on or before the date described  
 18 in such paragraph for which delivery is made after  
 19 such date, the delivery date shall be considered the  
 20 sale date.

21 (c) *REPORT.*—Not later than December 31, 1999, the  
 22 Comptroller General of the United States shall prepare and  
 23 submit a report to the Committee on Ways and Means of  
 24 the House of Representatives and the Committee on Finance  
 25 of the Senate on the operation of the Vaccine Injury Com-  
 26 pensation Trust Fund and on the adequacy of such Fund

1 *to meet future claims made under the Vaccine Injury Com-*  
 2 *pensation Program.*

3 **SEC. 507. ABOVE-THE-LINE DEDUCTION FOR PRESCRIPTION**  
 4 **DRUG INSURANCE COVERAGE OF MEDICARE**  
 5 **BENEFICIARIES IF CERTAIN MEDICARE AND**  
 6 **LOW-INCOME ASSISTANCE PROVISIONS IN EF-**  
 7 **FECTION.**

8 *(a) IN GENERAL.—Subsection (a) of section 213 is*  
 9 *amended by adding at the end the following new sentence:*  
 10 *“The 7.5 percent adjusted gross income threshold in the pre-*  
 11 *ceding sentence shall not apply to the expenses paid during*  
 12 *the taxable year for prescription drug insurance coverage*  
 13 *of a medicare beneficiary who is the taxpayer, the tax-*  
 14 *payer’s spouse, or a dependent (as defined in section 152)*  
 15 *if—*

16 *“(1) the Secretary certifies that, throughout such*  
 17 *taxable year, the conditions specified in subsection (e)*  
 18 *are met, and*

19 *“(2) the amount paid for such coverage is either*  
 20 *separately stated in the contract or furnished to the*  
 21 *policyholder by the insurance company in a separate*  
 22 *statement.*

23 *Expenses to which the preceding sentence applies shall not*  
 24 *be taken into account in applying such threshold to other*  
 25 *expenses. For purposes of this subsection, the term ‘medicare*

1 *beneficiary’ means an individual who is entitled to benefits*  
 2 *under part A, B, or C of title XVIII of the Social Security*  
 3 *Act.”*

4 *(b) CONDITIONS.—Section 213 is amended by redesign-*  
 5 *ating subsection (e) as subsection (f) and by inserting after*  
 6 *subsection (d) the following new subsection:*

7 *“(e) CONDITIONS FOR SEPARATE DEDUCTION FOR*  
 8 *PRESCRIPTION DRUG INSURANCE COVERAGE.—For pur-*  
 9 *poses of subsection (a), the conditions specified in this sub-*  
 10 *section are met if all of the following are in effect:*

11 *“(1) ASSISTANCE FOR PRESCRIPTION DRUGS FOR*  
 12 *LOW-INCOME MEDICARE BENEFICIARIES.—*

13 *“(A) Low-income assistance to enable the*  
 14 *purchase of coverage of prescription drugs as de-*  
 15 *scribed in paragraph (2) or (3) for medicare*  
 16 *beneficiaries with incomes under 135 percent of*  
 17 *the applicable Federal poverty level, with such*  
 18 *assistance phasing out for beneficiaries with in-*  
 19 *comes between 135 percent and 150 percent of*  
 20 *such level.*

21 *“(B) The Federal Government provides*  
 22 *funding for the costs of such assistance.*

23 *“(2) SUPPLEMENTAL COVERAGE OF PRESCRIP-*  
 24 *TION DRUGS.—All policies supplemental to Medicare*  
 25 *include coverage for costs of prescription drugs.*

1           “(3) *STRUCTURAL MEDICARE REFORM.*—Cov-  
 2           *erage for outpatient prescription drugs for medicare*  
 3           *beneficiaries is provided only through integrated com-*  
 4           *prehensive health plans which offer current Medicare*  
 5           *covered services and maximum limitations on out-of-*  
 6           *pocket spending and such comprehensive plans spon-*  
 7           *sored by the Health Care Financing Administration*  
 8           *compete on the same basis as private plans.”*

9           (c) *DEDUCTION FOR PRESCRIPTION DRUG INSURANCE*  
 10          *COVERAGE ALLOWED WHETHER OR NOT TAXPAYER*  
 11          *ITEMIZES OTHER DEDUCTIONS.*—Subsection (a) of section  
 12          62 (defining adjusted gross income) is amended by inserting  
 13          after paragraph (18) the following new paragraph:

14               “(19) *PRESCRIPTION DRUG INSURANCE COV-*  
 15               *ERAGE.*—The deduction allowed by section 213(a) to  
 16               the extent of the expenses described in the second sen-  
 17               tence thereof.”

18           (d) *EFFECTIVE DATE.*—The amendments made by this  
 19          section shall apply to taxable years beginning after the date  
 20          of the enactment of this Act.



1     ***TITLE VI—ESTATE TAX RELIEF***  
 2     ***Subtitle A—Repeal of Estate, Gift,***  
 3         ***and Generation-Skipping Taxes;***  
 4         ***Repeal of Step Up in Basis At***  
 5         ***Death***

6     ***SEC. 601. REPEAL OF ESTATE, GIFT, AND GENERATION-***  
 7             ***SKIPPING TAXES.***

8         *(a) IN GENERAL.—Subtitle B is hereby repealed.*

9         *(b) EFFECTIVE DATE.—The repeal made by subsection*  
 10     *(a) shall apply to the estates of decedents dying, and gifts*  
 11     *and generation-skipping transfers made, after December 31,*  
 12     *2008.*

13     ***SEC. 602. TERMINATION OF STEP UP IN BASIS AT DEATH.***

14         *(a) TERMINATION OF APPLICATION OF SECTION*  
 15     *1014.—Section 1014 (relating to basis of property acquired*  
 16     *from a decedent) is amended by adding at the end the fol-*  
 17     *lowing:*

18             *“(f) TERMINATION.—In the case of a decedent dying*  
 19     *after December 31, 2008, this section shall not apply to*  
 20     *property for which basis is provided by section 1022.”*

21         *(b) CONFORMING AMENDMENT.—Subsection (a) of sec-*  
 22     *tion 1016 (relating to adjustments to basis) is amended by*  
 23     *striking “and” at the end of paragraph (26), by striking*  
 24     *the period at the end of paragraph (27) and inserting “;*  
 25     *and”, and by adding at the end the following:*

1           “(28) to the extent provided in section 1022 (re-  
 2           lating to basis for certain property acquired from a  
 3           decedent dying after December 31, 2008).”

4   **SEC. 603. CARRYOVER BASIS AT DEATH.**

5           (a) *GENERAL RULE.*—Part II of subchapter O of chap-  
 6           ter 1 (relating to basis rules of general application) is  
 7           amended by inserting after section 1021 the following:

8   **“SEC. 1022. CARRYOVER BASIS FOR CERTAIN PROPERTY AC-**  
 9                           **QUIRED FROM A DECEDENT DYING AFTER DE-**  
 10                          **CEMBER 31, 2008.**

11           “(a) *CARRYOVER BASIS.*—Except as otherwise pro-  
 12           vided in this section, the basis of carryover basis property  
 13           in the hands of a person acquiring such property from a  
 14           decedent shall be determined under section 1015.

15           “(b) *CARRYOVER BASIS PROPERTY DEFINED.*—

16                   “(1) *IN GENERAL.*—For purposes of this section,  
 17           the term ‘carryover basis property’ means any  
 18           property—

19                           “(A) which is acquired from or passed from  
 20                           a decedent who died after December 31, 2008,  
 21                           and

22                           “(B) which is not excluded pursuant to  
 23                           paragraph (2).

24           The property taken into account under subparagraph  
 25           (A) shall be determined under section 1014(b) without

1       *regard to subparagraph (A) of the last sentence of*  
 2       *paragraph (9) thereof.*

3               “(2) *CERTAIN PROPERTY NOT CARRYOVER BASIS*  
 4       *PROPERTY.—The term ‘carryover basis property’ does*  
 5       *not include—*

6               “(A) *any item of gross income in respect of*  
 7       *a decedent described in section 691,*

8               “(B) *property which was acquired from the*  
 9       *decedent by the surviving spouse of the decedent,*  
 10       *the value of which would have been deductible*  
 11       *from the value of the taxable estate of the de-*  
 12       *cedent under section 2056, as in effect on the day*  
 13       *before the date of enactment of the Financial*  
 14       *Freedom Act of 1999, and*

15               “(C) *any includible property of the decedent*  
 16       *if the aggregate adjusted fair market value of*  
 17       *such property does not exceed \$2,000,000.*

18       *For purposes of this paragraph and paragraph (3),*  
 19       *the term ‘adjusted fair market value’ means, with re-*  
 20       *spect to any property, fair market value reduced by*  
 21       *any indebtedness secured by such property.*

22               “(3) *PHASEIN OF CARRYOVER BASIS IF INCLUD-*  
 23       *IBLE PROPERTY EXCEEDS \$1,300,000.—*

24               “(A) *IN GENERAL.—If the adjusted fair*  
 25       *market value of the includible property of the de-*

cedent exceeds \$1,300,000, but does not exceed \$2,000,000, the amount of the increase in the basis of such property which would (but for this paragraph) result under section 1014 shall be reduced by the amount which bears the same ratio to such increase as such excess bears to \$700,000.

“(B) *ALLOCATION OF REDUCTION.*—The reduction under subparagraph (A) shall be allocated among only the includible property having net appreciation and shall be allocated in proportion to the respective amounts of such net appreciation. For purposes of the preceding sentence, the term ‘net appreciation’ means the excess of the adjusted fair market value over the decedent’s adjusted basis immediately before such decedent’s death.

“(4) *INCLUDIBLE PROPERTY.*—

“(A) *IN GENERAL.*—For purposes of this subsection, the term ‘includible property’ means property which would be included in the gross estate of the decedent under any of the following provisions as in effect on the day before the date of the enactment of the Financial Freedom Act of 1999:

“(i) *Section 2033.*

1 “(ii) Section 2038.

2 “(iii) Section 2040.

3 “(iv) Section 2041.

4 “(v) Section 2042(a)(1).

5 “(B) *EXCLUSION OF PROPERTY ACQUIRED*  
6 *BY SPOUSE.*—Such term shall not include prop-  
7 erty described in paragraph (2)(B).

8 “(c) *REGULATIONS.*—The Secretary shall prescribe  
9 such regulations as may be necessary to carry out the pur-  
10 poses of this section.”

11 (b) *MISCELLANEOUS AMENDMENTS RELATED TO CAR-*  
12 *RYOVER BASIS.*—

13 (1) *CAPITAL GAIN TREATMENT FOR INHERITED*  
14 *ART WORK OR SIMILAR PROPERTY.*—

15 (A) *IN GENERAL.*—Subparagraph (C) of  
16 section 1221(3) (defining capital asset) is  
17 amended by inserting “(other than by reason of  
18 section 1022)” after “is determined”.

19 (B) *COORDINATION WITH SECTION 170.*—  
20 Paragraph (1) of section 170(e) (relating to cer-  
21 tain contributions of ordinary income and cap-  
22 ital gain property) is amended by adding at the  
23 end the following: “For purposes of this para-  
24 graph, the determination of whether property is  
25 a capital asset shall be made without regard to

1           *the exception contained in section 1221(3)(C) for*  
 2           *basis determined under section 1022.”*

3           (2) *DEFINITION OF EXECUTOR.*—Section 7701(a)  
 4           *(relating to definitions) is amended by adding at the*  
 5           *end the following:*

6           “(47) *EXECUTOR.*—The term ‘executor’ means  
 7           *the executor or administrator of the decedent, or, if*  
 8           *there is no executor or administrator appointed,*  
 9           *qualified, and acting within the United States, then*  
 10           *any person in actual or constructive possession of any*  
 11           *property of the decedent.”*

12           (3) *CLERICAL AMENDMENT.*—The table of sec-  
 13           *tions for part II of subchapter O of chapter 1 is*  
 14           *amended by adding at the end the following new item:*

          “Sec. 1022. Carryover basis for certain property acquired from a  
           decedent dying after December 31, 2008.”

15           (c) *EFFECTIVE DATE.*—The amendments made by this  
 16           *section shall apply to estates of decedents dying after De-*  
 17           *cember 31, 2008.*

18           ***Subtitle B—Reductions of Estate***  
 19           ***and Gift Tax Rates Prior to Repeal***

20           ***SEC. 611. ADDITIONAL REDUCTIONS OF ESTATE AND GIFT***  
 21           ***TAX RATES.***

22           (a) *MAXIMUM RATE OF TAX REDUCED TO 50 PER-*  
 23           *CENT.*—The table contained in section 2001(c)(1) is amend-

1 *ed by striking the 2 highest brackets and inserting the fol-*  
 2 *lowing:*

Over \$2,500,000 .....	\$1,025,800, plus 50% of the excess over \$2,500,000.”
------------------------	---

3       **(b) REPEAL OF PHASEOUT OF GRADUATED RATES.**—  
 4 *Subsection (c) of section 2001 is amended by striking para-*  
 5 *graph (2).*

6       **(c) ADDITIONAL REDUCTIONS OF RATES OF TAX.**—  
 7 *Subsection (c) of section 2001, as amended by subsection*  
 8 *(b), is amended by adding at the end the following new*  
 9 *paragraph:*

10               **“(2) PHASEDOWN OF TAX.**—*In the case of estates*  
 11 *of decedents dying, and gifts made, during any cal-*  
 12 *endar year after 2001 and before 2009—*

13                       **“(A) IN GENERAL.**—*Except as provided in*  
 14 *subparagraph (C), the tentative tax under this*  
 15 *subsection shall be determined by using a table*  
 16 *prescribed by the Secretary (in lieu of using the*  
 17 *table contained in paragraph (1)) which is the*  
 18 *same as such table; except that—*

19                               **“(i) each of the rates of tax shall be re-**  
 20 *duced by the number of percentage points*  
 21 *determined under subparagraph (B), and*

22                               **“(ii) the amounts setting forth the tax**  
 23 *shall be adjusted to the extent necessary to*  
 24 *reflect the adjustments under clause (i).*

1                   “(B) *PERCENTAGE POINTS OF REDUC-*  
 2                   *TION.*—

<b>“For calendar year:</b>	<b><i>The number of percentage points is:</i></b>
2002 .....	1
2003 .....	2
2004 .....	3
2005 .....	5
2006 .....	7
2007 .....	9
2008 .....	11.

3                   “(C) *COORDINATION WITH INCOME TAX*  
 4                   *RATES.*—*The reductions under subparagraph*  
 5                   *(A)*—

6                   “(i) *shall not reduce any rate under*  
 7                   *paragraph (1) below the lowest rate in sec-*  
 8                   *tion 1(c), and*

9                   “(ii) *shall not reduce the highest rate*  
 10                  *under paragraph (1) below the highest rate*  
 11                  *in section 1(c).*

12                  “(D) *COORDINATION WITH CREDIT FOR*  
 13                  *STATE DEATH TAXES.*—*Rules similar to the rules*  
 14                  *of subparagraph (A) shall apply to the table con-*  
 15                  *tained in section 2011(b) except that the Sec-*  
 16                  *retary shall prescribe percentage point reductions*  
 17                  *which maintain the proportionate relationship*  
 18                  *(as in effect before any reduction under this*  
 19                  *paragraph) between the credit under section*  
 20                  *2011 and the tax rates under subsection (c).”*

21                  *(d) EFFECTIVE DATES.*—



1           (1) *SUBSECTIONS (a) AND (b).*—*The amendments*  
 2           *made by subsections (a) and (b) shall apply to estates*  
 3           *of decedents dying, and gifts made, after December*  
 4           *31, 2000.*

5           (2) *SUBSECTION (c).*—*The amendment made by*  
 6           *subsection (c) shall apply to estates of decedents*  
 7           *dying, and gifts made, after December 31, 2001.*

8       ***Subtitle C—Unified Credit Re-***  
 9       ***placed With Unified Exemption***  
 10       ***Amount***

11       ***SEC. 621. UNIFIED CREDIT AGAINST ESTATE AND GIFT***  
 12               ***TAXES REPLACED WITH UNIFIED EXEMPTION***  
 13               ***AMOUNT.***

14       (a) *IN GENERAL.*—

15           (1) *ESTATE TAX.*—*Part IV of subchapter A of*  
 16       *chapter 11 is amended by inserting after section 2051*  
 17       *the following new section:*

18       ***“SEC. 2052. EXEMPTION.***

19           ***“(a) IN GENERAL.***—*For purposes of the tax imposed*  
 20       *by section 2001, the value of the taxable estate shall be deter-*  
 21       *mined by deducting from the value of the gross estate an*  
 22       *amount equal to the excess (if any) of—*

23               ***“(1) the exemption amount for the calendar year***  
 24       ***in which the decedent died, over***

25               ***“(2) the sum of—***

1           “(A) the aggregate amount allowed as an  
 2           exemption under section 2521 with respect to  
 3           gifts made by the decedent after December 31,  
 4           2000, and

5           “(B) the aggregate amount of gifts made by  
 6           the decedent for which credit was allowed by sec-  
 7           tion 2505 (as in effect on the day before the date  
 8           of the enactment of the Financial Freedom Act  
 9           of 1999).

10       *Gifts which are includible in the gross estate of the decedent*  
 11       *shall not be taken into account in determining the amounts*  
 12       *under paragraph (2).*

13       “(b) *EXEMPTION AMOUNT.*—For purposes of sub-  
 14       section (a), the term ‘exemption amount’ means the amount  
 15       determined in accordance with the following table:

<b>“In the case of calendar year:</b>	<b>The exemption amount is:</b>
2001 .....	\$675,000
2002 and 2003 .....	\$700,000
2004 .....	\$850,000
2005 .....	\$950,000
2006 or thereafter .....	\$1,000,000.”

16           (2) *GIFT TAX.*—Subchapter C of chapter 12 (re-  
 17       *lating to deductions) is amended by inserting before*  
 18       *section 2522 the following new section:*

19       **“SEC. 2521. EXEMPTION.**

20           “(a) *IN GENERAL.*—In computing taxable gifts for any  
 21       *calendar year, there shall be allowed as a deduction in the*

1 *case of a citizen or resident of the United States an amount*  
 2 *equal to the excess of—*

3 *“(1) the exemption amount determined under*  
 4 *section 2052 for such calendar year, over*

5 *“(2) the sum of—*

6 *“(A) the aggregate amount allowed as an*  
 7 *exemption under this section for all preceding*  
 8 *calendar years after 2000, and*

9 *“(B) the aggregate amount of gifts for which*  
 10 *credit was allowed by section 2505 (as in effect*  
 11 *on the day before the date of the enactment of the*  
 12 *Financial Freedom Act of 1999).”*

13 *(b) REPEAL OF UNIFIED CREDITS.—*

14 *(1) Section 2010 (relating to unified credit*  
 15 *against estate tax) is hereby repealed.*

16 *(2) Section 2505 (relating to unified credit*  
 17 *against gift tax) is hereby repealed.*

18 *(c) CONFORMING AMENDMENTS.—*

19 *(1)(A) Subparagraph (B) of section 2001(b)(1) is*  
 20 *amended by inserting before the comma “reduced by*  
 21 *the amount of described in section 2052(a)(2)”.*

22 *(B) Subsection (b) of section 2001 is amended by*  
 23 *adding at the end the following new sentence: “For*  
 24 *purposes of paragraph (2), the amount of the tax pay-*  
 25 *able under chapter 12 shall be determined without re-*

1       *gard to the credit provided by section 2505 (as in ef-*  
 2       *fect on the day before the date of the enactment of the*  
 3       *Financial Freedom Act of 1999).”*

4               *(2) Subsection (f) of section 2011 is amended by*  
 5       *striking “, reduced by the amount of the unified cred-*  
 6       *it provided by section 2010”.*

7               *(3) Subsection (a) of section 2012 is amended by*  
 8       *striking “and the unified credit provided by section*  
 9       *2010”.*

10              *(4) Subsection (b) of section 2013 is amended by*  
 11       *inserting before the period at the end of the first sen-*  
 12       *tence “and increased by the exemption allowed under*  
 13       *section 2052 or 2106(a)(4) (or the corresponding pro-*  
 14       *visions of prior law) in determining the taxable estate*  
 15       *of the transferor for purposes of the estate tax”.*

16              *(5) Subparagraph (A) of section 2013(c)(1) is*  
 17       *amended by striking “2010,”.*

18              *(6) Paragraph (2) of section 2014(b) is amended*  
 19       *by striking “2010,”.*

20              *(7) Clause (ii) of section 2056A(b)(12)(C) is*  
 21       *amended to read as follows:*

22                       *“(ii) to treat any reduction in the tax*  
 23                       *imposed by paragraph (1)(A) by reason of*  
 24                       *the credit allowable under section 2010 (as*  
 25                       *in effect on the day before the date of the en-*

actment of the Financial Freedom Act of 1999) or the exemption allowable under section 2052 with respect to the decedent as such a credit or exemption (as the case may be) allowable to such surviving spouse for purposes of determining the amount of the exemption allowable under section 2521 with respect to taxable gifts made by the surviving spouse during the year in which the spouse becomes a citizen or any subsequent year.”.

(8) Section 2102 is amended by striking subsection (c).

(9) Subsection (a) of section 2106 is amended by adding at the end the following new paragraph:

“(4) EXEMPTION.—

“(A) IN GENERAL.—An exemption of \$60,000.

“(B) RESIDENTS OF POSSESSIONS OF THE UNITED STATES.—In the case of a decedent who is considered to be a nonresident not a citizen of the United States under section 2209, the exemption under this paragraph shall be the greater of—

“(i) \$60,000, or

1           “(ii) that proportion of \$175,000  
2           which the value of that part of the dece-  
3           dent’s gross estate which at the time of his  
4           death is situated in the United States bears  
5           to the value of his entire gross estate wher-  
6           ever situated.

7           “(C) SPECIAL RULES.—

8           “(i) COORDINATION WITH TREATIES.—  
9           To the extent required under any treaty ob-  
10          ligation of the United States, the exemption  
11          allowed under this paragraph shall be equal  
12          to the amount which bears the same ratio to  
13          the exemption amount under section 2052  
14          (for the calendar year in which the decedent  
15          died) as the value of the part of the dece-  
16          dent’s gross estate which at the time of his  
17          death is situated in the United States bears  
18          to the value of his entire gross estate wher-  
19          ever situated. For purposes of the preceding  
20          sentence, property shall not be treated as  
21          situated in the United States if such prop-  
22          erty is exempt from the tax imposed by this  
23          subchapter under any treaty obligation of  
24          the United States.

1                   “(ii) *COORDINATION WITH GIFT TAX*  
2                   *EXEMPTION AND UNIFIED CREDIT.*—*If an*  
3                   *exemption has been allowed under section*  
4                   *2521 (or a credit has been allowed under*  
5                   *section 2505 as in effect on the day before*  
6                   *the date of the enactment of the Financial*  
7                   *Freedom Act of 1999) with respect to any*  
8                   *gift made by the decedent, each dollar*  
9                   *amount contained in subparagraph (A) or*  
10                   *(B) or the exemption amount applicable*  
11                   *under clause (i) of this subparagraph*  
12                   *(whichever applies) shall be reduced by the*  
13                   *exemption so allowed under 2521 (or, in the*  
14                   *case of such a credit, by the amount of the*  
15                   *gift for which the credit was so allowed).’’*  
16                   (10) *Subsection (c) of section 2107 is amended—*  
17                   *(A) by striking paragraph (1) and by redes-*  
18                   *ignating paragraphs (2) and (3) as paragraphs*  
19                   *(1) and (2), respectively, and*  
20                   *(B) by striking the second sentence of para-*  
21                   *graph (2) (as so redesignated).*  
22                   (11) *Section 2206 is amended by striking “the*  
23                   *taxable estate’’ in the first sentence and inserting “the*  
24                   *sum of the taxable estate and the amount of the ex-*

1        *emption allowed under section 2052 or 2106(a)(4) in*  
 2        *computing the taxable estate”.*

3            (12) *Section 2207 is amended by striking “the*  
 4        *taxable estate” in the first sentence and inserting “the*  
 5        *sum of the taxable estate and the amount of the ex-*  
 6        *emption allowed under section 2052 or 2106(a)(4) in*  
 7        *computing the taxable estate”.*

8            (13) *Subparagraph (B) of section 2207B(a)(1) is*  
 9        *amended to read as follows:*

10            *“(B) the sum of the taxable estate and the*  
 11            *amount of the exemption allowed under section*  
 12            *2052 or 2106(a)(4) in computing the taxable es-*  
 13            *tate.”*

14            (14) *Subsection (a) of section 2503 is amended*  
 15        *by striking “section 2522” and inserting “section*  
 16        *2521”.*

17            (15) *Paragraph (1) of section 6018(a) is amend-*  
 18        *ed by striking “\$600,000” and inserting “the exemp-*  
 19        *tion amount under section 2052 for the calendar year*  
 20        *which includes the date of death”.*

21            (16) *Subparagraph (A) of section 6601(j)(2) is*  
 22        *amended to read as follows:*

23            *“(A) the amount of the tax which would be*  
 24            *imposed by chapter 11 on an amount of taxable*  
 25            *estate equal to the excess of \$1,000,000 over the*



1           *exemption amount allowable under section 2052,*  
 2           *or”.*

3           *(17) The table of sections for part II of sub-*  
 4           *chapter A of chapter 11 is amended by striking the*  
 5           *item relating to section 2010.*

6           *(18) The table of sections for subchapter A of*  
 7           *chapter 12 is amended by striking the item relating*  
 8           *to section 2505.*

9           *(d) EFFECTIVE DATE.—The amendments made by this*  
 10          *section—*

11           *(1) insofar as they relate to the tax imposed by*  
 12           *chapter 11 of the Internal Revenue Code of 1986, shall*  
 13           *apply to estates of decedents dying after December 31,*  
 14           *2000, and*

15           *(2) insofar as they relate to the tax imposed by*  
 16           *chapter 12 of such Code, shall apply to gifts made*  
 17           *after December 31, 2000.*

18           ***Subtitle D—Modifications of***  
 19           ***Generation-Skipping Transfer Tax***

20          ***SEC. 631. DEEMED ALLOCATION OF GST EXEMPTION TO***  
 21                   ***LIFETIME TRANSFERS TO TRUSTS; RETRO-***  
 22                   ***ACTIVE ALLOCATIONS.***

23           *(a) IN GENERAL.—Section 2632 (relating to special*  
 24           *rules for allocation of GST exemption) is amended by redes-*

1 ignating subsection (c) as subsection (e) and by inserting  
 2 after subsection (b) the following new subsections:

3 “(c) *DEEMED ALLOCATION TO CERTAIN LIFETIME*  
 4 *TRANSFERS TO GST TRUSTS.*—

5 “(1) *IN GENERAL.*—If any individual makes an  
 6 indirect skip during such individual’s lifetime, any  
 7 unused portion of such individual’s GST exemption  
 8 shall be allocated to the property transferred to the ex-  
 9 tent necessary to make the inclusion ratio for such  
 10 property zero. If the amount of the indirect skip ex-  
 11 ceeds such unused portion, the entire unused portion  
 12 shall be allocated to the property transferred.

13 “(2) *UNUSED PORTION.*—For purposes of para-  
 14 graph (1), the unused portion of an individual’s GST  
 15 exemption is that portion of such exemption which  
 16 has not previously been—

17 “(A) allocated by such individual,

18 “(B) treated as allocated under subsection  
 19 (b) with respect to a direct skip occurring during  
 20 or before the calendar year in which the indirect  
 21 skip is made, or

22 “(C) treated as allocated under paragraph  
 23 (1) with respect to a prior indirect skip.

24 “(3) *DEFINITIONS.*—

1           “(A) *INDIRECT SKIP*.—For purposes of this  
 2           subsection, the term ‘indirect skip’ means any  
 3           transfer of property (other than a direct skip)  
 4           subject to the tax imposed by chapter 12 made  
 5           to a GST trust.

6           “(B) *GST TRUST*.—The term ‘GST trust’  
 7           means a trust that could have a generation-skip-  
 8           ping transfer with respect to the transferor  
 9           unless—

10           “(i) the trust instrument provides that  
 11           more than 25 percent of the trust corpus  
 12           must be distributed to or may be withdrawn  
 13           by 1 or more individuals who are non-skip  
 14           persons—

15           “(I) before the date that the indi-  
 16           vidual attains age 46,

17           “(II) on or before 1 or more dates  
 18           specified in the trust instrument that  
 19           will occur before the date that such in-  
 20           dividual attains age 46, or

21           “(III) upon the occurrence of an  
 22           event that, in accordance with regula-  
 23           tions prescribed by the Secretary, may  
 24           reasonably be expected to occur before

1           *the date that such individual attains*  
2           *age 46;*

3           “(ii) *the trust instrument provides that*  
4           *more than 25 percent of the trust corpus*  
5           *must be distributed to or may be withdrawn*  
6           *by 1 or more individuals who are non-skip*  
7           *persons and who are living on the date of*  
8           *death of another person identified in the in-*  
9           *strument (by name or by class) who is more*  
10          *than 10 years older than such individuals;*

11          “(iii) *the trust instrument provides*  
12          *that, if 1 or more individuals who are non-*  
13          *skip persons die on or before a date or event*  
14          *described in clause (i) or (ii), more than 25*  
15          *percent of the trust corpus either must be*  
16          *distributed to the estate or estates of 1 or*  
17          *more of such individuals or is subject to a*  
18          *general power of appointment exercisable by*  
19          *1 or more of such individuals;*

20          “(iv) *the trust is a trust any portion*  
21          *of which would be included in the gross es-*  
22          *tate of a non-skip person (other than the*  
23          *transferor) if such person died immediately*  
24          *after the transfer;*

1           “(v) the trust is a charitable lead an-  
2           nuity trust (within the meaning of section  
3           2642(e)(3)(A)) or a charitable remainder  
4           annuity trust or a charitable remainder  
5           unitrust (within the meaning of section  
6           664(d)); or

7           “(vi) the trust is a trust with respect  
8           to which a deduction was allowed under sec-  
9           tion 2522 for the amount of an interest in  
10          the form of the right to receive annual pay-  
11          ments of a fixed percentage of the net fair  
12          market value of the trust property (deter-  
13          mined yearly) and which is required to pay  
14          principal to a non-skip person if such per-  
15          son is alive when the yearly payments for  
16          which the deduction was allowed terminate.

17          For purposes of this subparagraph, the value of  
18          transferred property shall not be considered to be  
19          includible in the gross estate of a non-skip per-  
20          son or subject to a right of withdrawal by reason  
21          of such person holding a right to withdraw so  
22          much of such property as does not exceed the  
23          amount referred to in section 2503(b) with re-  
24          spect to any transferor, and it shall be assumed

1           *that powers of appointment held by non-skip*  
 2           *persons will not be exercised.*

3           “(4) *AUTOMATIC ALLOCATIONS TO CERTAIN GST*  
 4           *TRUSTS.—For purposes of this subsection, an indirect*  
 5           *skip to which section 2642(f) applies shall be deemed*  
 6           *to have been made only at the close of the estate tax*  
 7           *inclusion period. The fair market value of such trans-*  
 8           *fer shall be the fair market value of the trust property*  
 9           *at the close of the estate tax inclusion period.*

10           “(5) *APPLICABILITY AND EFFECT.—*

11           “(A) *IN GENERAL.—An individual—*

12           “(i) *may elect to have this subsection*  
 13           *not apply to—*

14           “(I) *an indirect skip, or*

15           “(II) *any or all transfers made by*  
 16           *such individual to a particular trust,*  
 17           *and*

18           “(ii) *may elect to treat any trust as a*  
 19           *GST trust for purposes of this subsection*  
 20           *with respect to any or all transfers made by*  
 21           *such individual to such trust.*

22           “(B) *ELECTIONS.—*

23           “(i) *ELECTIONS WITH RESPECT TO IN-*  
 24           *DIRECT SKIPS.—An election under subpara-*  
 25           *graph (A)(i)(I) shall be deemed to be timely*

1 *if filed on a timely filed gift tax return for*  
 2 *the calendar year in which the transfer was*  
 3 *made or deemed to have been made pursu-*  
 4 *ant to paragraph (4) or on such later date*  
 5 *or dates as may be prescribed by the Sec-*  
 6 *retary.*

7 “(ii) *OTHER ELECTIONS.—An election*  
 8 *under clause (i)(II) or (ii) of subparagraph*  
 9 *(A) may be made on a timely filed gift tax*  
 10 *return for the calendar year for which the*  
 11 *election is to become effective.*

12 “(d) *RETROACTIVE ALLOCATIONS.—*

13 “(1) *IN GENERAL.—If—*

14 “(A) *a non-skip person has an interest or a*  
 15 *future interest in a trust to which any transfer*  
 16 *has been made,*

17 “(B) *such person—*

18 “(i) *is a lineal descendant of a grand-*  
 19 *parent of the transferor or of a grandparent*  
 20 *of the transferor’s spouse or former spouse,*  
 21 *and*

22 “(ii) *is assigned to a generation below*  
 23 *the generation assignment of the transferor,*  
 24 *and*

25 “(C) *such person predeceases the transferor,*

1     *then the transferor may make an allocation of any of*  
 2     *such transferor's unused GST exemption to any pre-*  
 3     *vious transfer or transfers to the trust on a chrono-*  
 4     *logical basis.*

5             “(2) *SPECIAL RULES.*—*If the allocation under*  
 6     *paragraph (1) by the transferor is made on a gift tax*  
 7     *return filed on or before the date prescribed by section*  
 8     *6075(b) for gifts made within the calendar year with-*  
 9     *in which the non-skip person's death occurred—*

10            “(A) *the value of such transfer or transfers*  
 11     *for purposes of section 2642(a) shall be deter-*  
 12     *mined as if such allocation had been made on a*  
 13     *timely filed gift tax return for each calendar*  
 14     *year within which each transfer was made,*

15            “(B) *such allocation shall be effective imme-*  
 16     *diately before such death, and*

17            “(C) *the amount of the transferor's unused*  
 18     *GST exemption available to be allocated shall be*  
 19     *determined immediately before such death.*

20            “(3) *FUTURE INTEREST.*—*For purposes of this*  
 21     *subsection, a person has a future interest in a trust*  
 22     *if the trust may permit income or corpus to be paid*  
 23     *to such person on a date or dates in the future.”.*



1       (b) *CONFORMING AMENDMENT.*—Paragraph (2) of sec-  
 2       tion 2632(b) is amended by striking “with respect to a di-  
 3       rect skip” and inserting “or subsection (c)(1)”.

4       (c) *EFFECTIVE DATES.*—

5           (1) *DEEMED ALLOCATION.*—Section 2632(c) of  
 6       the Internal Revenue Code of 1986 (as added by sub-  
 7       section (a)), and the amendment made by subsection  
 8       (b), shall apply to transfers subject to chapter 11 or  
 9       12 made after December 31, 1999, and to estate tax  
 10      inclusion periods ending after December 31, 1999.

11          (2) *RETROACTIVE ALLOCATIONS.*—Section  
 12      2632(d) of the Internal Revenue Code of 1986 (as  
 13      added by subsection (a)) shall apply to deaths of non-  
 14      skip persons occurring after the date of the enactment  
 15      of this Act.

16 **SEC. 632. SEVERING OF TRUSTS.**

17      (a) *IN GENERAL.*—Subsection (a) of section 2642 (re-  
 18      lating to inclusion ratio) is amended by adding at the end  
 19      the following new paragraph:

20           “(3) *SEVERING OF TRUSTS.*—

21           “(A) *IN GENERAL.*—If a trust is severed in  
 22           a qualified severance, the trusts resulting from  
 23           such severance shall be treated as separate trusts  
 24           thereafter for purposes of this chapter.

1           “(B) *QUALIFIED SEVERANCE.*—For pur-  
 2           poses of subparagraph (A)—

3           “(i) *IN GENERAL.*—The term ‘qualified  
 4           severance’ means the division of a single  
 5           trust and the creation (by any means avail-  
 6           able under the governing instrument or  
 7           under local law) of 2 or more trusts if—

8           “(I) the single trust was divided  
 9           on a fractional basis, and

10          “(II) the terms of the new trusts,  
 11          in the aggregate, provide for the same  
 12          succession of interests of beneficiaries  
 13          as are provided in the original trust.

14          “(ii) *TRUSTS WITH INCLUSION RATIO*  
 15          *GREATER THAN ZERO.*—If a trust has an  
 16          inclusion ratio of greater than zero and less  
 17          than 1, a severance is a qualified severance  
 18          only if the single trust is divided into 2  
 19          trusts, one of which receives a fractional  
 20          share of the total value of all trust assets  
 21          equal to the applicable fraction of the single  
 22          trust immediately before the severance. In  
 23          such case, the trust receiving such fractional  
 24          share shall have an inclusion ratio of zero

1                   *and the other trust shall have an inclusion*  
 2                   *ratio of 1.*

3                   “(iii)     *REGULATIONS.—The     term*  
 4                   *‘qualified severance’ includes any other sev-*  
 5                   *erance permitted under regulations pre-*  
 6                   *scribed by the Secretary.*

7                   “(C)     *TIMING     AND     MANNER     OF*  
 8                   *SEVERANCES.—A severance pursuant to this*  
 9                   *paragraph may be made at any time. The Sec-*  
 10                  *retary shall prescribe by forms or regulations the*  
 11                  *manner in which the qualified severance shall be*  
 12                  *reported to the Secretary.”.*

13                (b) *EFFECTIVE DATE.—The amendment made by this*  
 14                *section shall apply to severances after the date of the enact-*  
 15                *ment of this Act.*

16   **SEC. 633. MODIFICATION OF CERTAIN VALUATION RULES.**

17                (a) *GIFTS FOR WHICH GIFT TAX RETURN FILED OR*  
 18                *DEEMED ALLOCATION MADE.—Paragraph (1) of section*  
 19                *2642(b) (relating to valuation rules, etc.) is amended to*  
 20                *read as follows:*

21                   “(1) *GIFTS FOR WHICH GIFT TAX RETURN FILED*  
 22                   *OR DEEMED ALLOCATION MADE.—If the allocation of*  
 23                   *the GST exemption to any transfers of property is*  
 24                   *made on a gift tax return filed on or before the date*  
 25                   *prescribed by section 6075(b) for such transfer or is*

1        *deemed to be made under section 2632 (b)(1) or*  
 2        *(c)(1)—*

3                *“(A) the value of such property for purposes*  
 4                *of subsection (a) shall be its value as finally de-*  
 5                *termined for purposes of chapter 12 (within the*  
 6                *meaning of section 2001(f)(2)), or, in the case of*  
 7                *an allocation deemed to have been made at the*  
 8                *close of an estate tax inclusion period, its value*  
 9                *at the time of the close of the estate tax inclusion*  
 10               *period, and*

11               *“(B) such allocation shall be effective on*  
 12               *and after the date of such transfer, or, in the*  
 13               *case of an allocation deemed to have been made*  
 14               *at the close of an estate tax inclusion period, on*  
 15               *and after the close of such estate tax inclusion*  
 16               *period.”.*

17        *(b) TRANSFERS AT DEATH.—Subparagraph (A) of sec-*  
 18        *tion 2642(b)(2) is amended to read as follows:*

19               *“(A) TRANSFERS AT DEATH.—If property is*  
 20               *transferred as a result of the death of the trans-*  
 21               *feror, the value of such property for purposes of*  
 22               *subsection (a) shall be its value as finally deter-*  
 23               *mined for purposes of chapter 11; except that, if*  
 24               *the requirements prescribed by the Secretary re-*  
 25               *specting allocation of post-death changes in value*

1           *are not met, the value of such property shall be*  
 2           *determined as of the time of the distribution con-*  
 3           *cerned.”.*

4           *(c) EFFECTIVE DATE.—The amendments made by this*  
 5           *section shall take effect as if included in the amendments*  
 6           *made by section 1431 of the Tax Reform Act of 1986.*

7   **SEC. 634. RELIEF PROVISIONS.**

8           *(a) IN GENERAL.—Section 2642 is amended by adding*  
 9           *at the end the following new subsection:*

10          “(g) *RELIEF PROVISIONS.—*

11               “(1) *RELIEF FOR LATE ELECTIONS.—*

12                   “(A) *IN GENERAL.—The Secretary shall by*  
 13                   *regulation prescribe such circumstances and pro-*  
 14                   *cedures under which extensions of time will be*  
 15                   *granted to make—*

16                           “(i) *an allocation of GST exemption*  
 17                           *described in paragraph (1) or (2) of sub-*  
 18                           *section (b), and*

19                           “(ii) *an election under subsection*  
 20                           *(b)(3) or (c)(5) of section 2632.*

21           *Such regulations shall include procedures for re-*  
 22           *questing comparable relief with respect to trans-*  
 23           *fers made before the date of enactment of this*  
 24           *paragraph.*

1           “(B) *BASIS FOR DETERMINATIONS.*—*In de-*  
2           *termining whether to grant relief under this*  
3           *paragraph, the Secretary shall take into account*  
4           *all relevant circumstances, including evidence of*  
5           *intent contained in the trust instrument or in-*  
6           *strument of transfer and such other factors as the*  
7           *Secretary deems relevant. For purposes of deter-*  
8           *mining whether to grant relief under this para-*  
9           *graph, the time for making the allocation (or*  
10           *election) shall be treated as if not expressly pre-*  
11           *scribed by statute.*

12           “(2) *SUBSTANTIAL COMPLIANCE.*—*An allocation*  
13           *of GST exemption under section 2632 that dem-*  
14           *onstrates an intent to have the lowest possible inclu-*  
15           *sion ratio with respect to a transfer or a trust shall*  
16           *be deemed to be an allocation of so much of the trans-*  
17           *feror’s unused GST exemption as produces the lowest*  
18           *possible inclusion ratio. In determining whether there*  
19           *has been substantial compliance, all relevant cir-*  
20           *cumstances shall be taken into account, including evi-*  
21           *dence of intent contained in the trust instrument or*  
22           *instrument of transfer and such other factors as the*  
23           *Secretary deems relevant.”.*

24           *(b) EFFECTIVE DATES.*—

1           (1) *RELIEF FOR LATE ELECTIONS.*—Section  
 2       2642(g)(1) of the Internal Revenue Code of 1986 (as  
 3       added by subsection (a)) shall apply to requests pend-  
 4       ing on, or filed after, the date of the enactment of this  
 5       Act.

6           (2) *SUBSTANTIAL COMPLIANCE.*—Section  
 7       2642(g)(2) of such Code (as so added) shall take effect  
 8       on the date of the enactment of this Act and shall  
 9       apply to allocations made prior to such date for pur-  
 10      poses of determining the tax consequences of genera-  
 11      tion-skipping transfers with respect to which the pe-  
 12      riod of time for filing claims for refund has not ex-  
 13      pired. No negative implication is intended with re-  
 14      spect to the availability of relief for late elections or  
 15      the application of a rule of substantial compliance  
 16      prior to the enactment of this amendment.

17 ***TITLE VII—TAX RELIEF FOR DIS-***  
 18 ***TRESSED COMMUNITIES AND***  
 19 ***INDUSTRIES***

20 ***Subtitle A—American Community***  
 21 ***Renewal Act of 1999***

22 ***SEC. 701. SHORT TITLE.***

23       *This subtitle may be cited as the “American Commu-*  
 24 *nity Renewal Act of 1999”.*

1 **SEC. 702. DESIGNATION OF AND TAX INCENTIVES FOR RE-**  
 2 **NEWAL COMMUNITIES.**

3 (a) *IN GENERAL.*—Chapter 1 is amended by adding  
 4 at the end the following new subchapter:

5 **“Subchapter X—Renewal Communities**

*“Part I. Designation.*

*“Part II. Renewal community capital gain; renewal community  
 business.*

*“Part III. Family development accounts.*

*“Part IV. Additional incentives.*

6 **“PART I—DESIGNATION**

*“Sec. 1400E. Designation of renewal communities.*

7 **“SEC. 1400E. DESIGNATION OF RENEWAL COMMUNITIES.**

8 *“(a) DESIGNATION.—*

9 *“(1) DEFINITIONS.—For purposes of this title,*  
 10 *the term ‘renewal community’ means any area—*

11 *“(A) which is nominated by one or more*  
 12 *local governments and the State or States in*  
 13 *which it is located for designation as a renewal*  
 14 *community (hereinafter in this section referred*  
 15 *to as a ‘nominated area’); and*

16 *“(B) which the Secretary of Housing and*  
 17 *Urban Development designates as a renewal*  
 18 *community, after consultation with—*

19 *“(i) the Secretaries of Agriculture,*  
 20 *Commerce, Labor, and the Treasury; the*  
 21 *Director of the Office of Management and*



1                   *Budget; and the Administrator of the Small*  
 2                   *Business Administration; and*

3                   “(ii) *in the case of an area on an In-*  
 4                   *dian reservation, the Secretary of the Inte-*  
 5                   *rior.*

6                   “(2) *NUMBER OF DESIGNATIONS.—*

7                   “(A) *IN GENERAL.—The Secretary of Hous-*  
 8                   *ing and Urban Development may designate not*  
 9                   *more than 20 nominated areas as renewal com-*  
 10                   *munities.*

11                   “(B) *MINIMUM DESIGNATION IN RURAL*  
 12                   *AREAS.—Of the areas designated under para-*  
 13                   *graph (1), at least 4 must be areas—*

14                   “(i) *which are within a local govern-*  
 15                   *ment jurisdiction or jurisdictions with a*  
 16                   *population of less than 50,000,*

17                   “(ii) *which are outside of a metropoli-*  
 18                   *tan statistical area (within the meaning of*  
 19                   *section 143(k)(2)(B)), or*

20                   “(iii) *which are determined by the Sec-*  
 21                   *retary of Housing and Urban Development,*  
 22                   *after consultation with the Secretary of*  
 23                   *Commerce, to be rural areas.*

24                   “(3) *AREAS DESIGNATED BASED ON DEGREE OF*  
 25                   *POVERTY, ETC.—*

1           “(A) *IN GENERAL.*—*Except as otherwise*  
 2           *provided in this section, the nominated areas*  
 3           *designated as renewal communities under this*  
 4           *subsection shall be those nominated areas with*  
 5           *the highest average ranking with respect to the*  
 6           *criteria described in subparagraphs (B), (C),*  
 7           *and (D) of subsection (c)(3). For purposes of the*  
 8           *preceding sentence, an area shall be ranked with-*  
 9           *in each such criterion on the basis of the amount*  
 10           *by which the area exceeds such criterion, with*  
 11           *the area which exceeds such criterion by the*  
 12           *greatest amount given the highest ranking.*

13           “(B) *EXCEPTION WHERE INADEQUATE*  
 14           *COURSE OF ACTION, ETC.*—*An area shall not be*  
 15           *designated under subparagraph (A) if the Sec-*  
 16           *retary of Housing and Urban Development de-*  
 17           *termines that the course of action described in*  
 18           *subsection (d)(2) with respect to such area is in-*  
 19           *adequate.*

20           “(C) *PRIORITY FOR EMPOWERMENT ZONES*  
 21           *AND ENTERPRISE COMMUNITIES WITH RESPECT*  
 22           *TO FIRST HALF OF DESIGNATIONS.*—*With respect*  
 23           *to the first 10 designations made under this*  
 24           *section—*

1                   “(i) *all shall be chosen from nominated*  
 2                   *areas which are empowerment zones or en-*  
 3                   *terprise communities (and are otherwise eli-*  
 4                   *gible for designation under this section);*  
 5                   *and*

6                   “(ii) *2 shall be areas described in*  
 7                   *paragraph (2)(B).*

8                   “(4) *LIMITATION ON DESIGNATIONS.—*

9                   “(A) *PUBLICATION OF REGULATIONS.—The*  
 10                  *Secretary of Housing and Urban Development*  
 11                  *shall prescribe by regulation no later than 4*  
 12                  *months after the date of the enactment of this*  
 13                  *section, after consultation with the officials de-*  
 14                  *scribed in paragraph (1)(B)—*

15                  “(i) *the procedures for nominating an*  
 16                  *area under paragraph (1)(A);*

17                  “(ii) *the parameters relating to the size*  
 18                  *and population characteristics of a renewal*  
 19                  *community; and*

20                  “(iii) *the manner in which nominated*  
 21                  *areas will be evaluated based on the criteria*  
 22                  *specified in subsection (d).*

23                  “(B) *TIME LIMITATIONS.—The Secretary of*  
 24                  *Housing and Urban Development may designate*  
 25                  *nominated areas as renewal communities only*

1       *during the 24-month period beginning on the*  
2       *first day of the first month following the month*  
3       *in which the regulations described in subpara-*  
4       *graph (A) are prescribed.*

5               “(C) *PROCEDURAL RULES.—The Secretary*  
6       *of Housing and Urban Development shall not*  
7       *make any designation of a nominated area as a*  
8       *renewal community under paragraph (2)*  
9       *unless—*

10              “(i) *the local governments and the*  
11       *States in which the nominated area is lo-*  
12       *cated have the authority—*

13              “(I) *to nominate such area for*  
14       *designation as a renewal community;*

15              “(II) *to make the State and local*  
16       *commitments described in subsection*  
17       *(d); and*

18              “(III) *to provide assurances satis-*  
19       *factory to the Secretary of Housing*  
20       *and Urban Development that such*  
21       *commitments will be fulfilled,*

22              “(ii) *a nomination regarding such*  
23       *area is submitted in such a manner and in*  
24       *such form, and contains such information,*

1                   *as the Secretary of Housing and Urban De-*  
 2                   *velopment shall by regulation prescribe; and*

3                   *“(iii) the Secretary of Housing and*  
 4                   *Urban Development determines that any in-*  
 5                   *formation furnished is reasonably accurate.*

6                   *“(5) NOMINATION PROCESS FOR INDIAN RES-*  
 7                   *ERVATIONS.—For purposes of this subchapter, in the*  
 8                   *case of a nominated area on an Indian reservation,*  
 9                   *the reservation governing body (as determined by the*  
 10                   *Secretary of the Interior) shall be treated as being*  
 11                   *both the State and local governments with respect to*  
 12                   *such area.*

13                   *“(b) PERIOD FOR WHICH DESIGNATION IS IN EF-*  
 14                   *FECTION.—*

15                   *“(1) IN GENERAL.—Any designation of an area*  
 16                   *as a renewal community shall remain in effect during*  
 17                   *the period beginning on the date of the designation*  
 18                   *and ending on the earliest of—*

19                   *“(A) December 31, 2007,*

20                   *“(B) the termination date designated by the*  
 21                   *State and local governments in their nomina-*  
 22                   *tion, or*

23                   *“(C) the date the Secretary of Housing and*  
 24                   *Urban Development revokes such designation.*

1           “(2) *REVOCATION OF DESIGNATION.*—*The Sec-*  
 2           *retary of Housing and Urban Development may re-*  
 3           *voke the designation under this section of an area if*  
 4           *such Secretary determines that the local government*  
 5           *or the State in which the area is located—*

6                     “(A) *has modified the boundaries of the*  
 7                     *area, or*

8                     “(B) *is not complying substantially with, or*  
 9                     *fails to make progress in achieving, the State or*  
 10                    *local commitments, respectively, described in*  
 11                    *subsection (d).*

12           “(c) *AREA AND ELIGIBILITY REQUIREMENTS.*—

13                    “(1) *IN GENERAL.*—*The Secretary of Housing*  
 14                    *and Urban Development may designate a nominated*  
 15                    *area as a renewal community under subsection (a)*  
 16                    *only if the area meets the requirements of paragraphs*  
 17                    *(2) and (3) of this subsection.*

18                    “(2) *AREA REQUIREMENTS.*—*A nominated area*  
 19                    *meets the requirements of this paragraph if—*

20                             “(A) *the area is within the jurisdiction of*  
 21                             *one or more local governments;*

22                             “(B) *the boundary of the area is contin-*  
 23                             *uous; and*

24                             “(C) *the area—*

25                                     “(i) *has a population, of at least—*

1                   “(I) 4,000 if any portion of such  
 2                   area (other than a rural area described  
 3                   in subsection (a)(2)(B)(i)) is located  
 4                   within a metropolitan statistical area  
 5                   (within the meaning of section  
 6                   143(k)(2)(B)) which has a population  
 7                   of 50,000 or greater; or

8                   “(II) 1,000 in any other case; or  
 9                   “(ii) is entirely within an Indian res-  
 10                  ervation (as determined by the Secretary of  
 11                  the Interior).

12                  “(3) *ELIGIBILITY REQUIREMENTS.*—A nomi-  
 13                  nated area meets the requirements of this paragraph  
 14                  if the State and the local governments in which it is  
 15                  located certify (and the Secretary of Housing and  
 16                  Urban Development, after such review of supporting  
 17                  data as he deems appropriate, accepts such certifi-  
 18                  cation) that—

19                         “(A) the area is one of pervasive poverty,  
 20                         unemployment, and general distress;

21                         “(B) the unemployment rate in the area, as  
 22                         determined by the most recent available data,  
 23                         was at least 1½ times the national unemploy-  
 24                         ment rate for the period to which such data re-  
 25                         late;

1           “(C) the poverty rate for each population  
2 census tract within the nominated area is at  
3 least 20 percent; and

4           “(D) in the case of an urban area, at least  
5 70 percent of the households living in the area  
6 have incomes below 80 percent of the median in-  
7 come of households within the jurisdiction of the  
8 local government (determined in the same man-  
9 ner as under section 119(b)(2) of the Housing  
10 and Community Development Act of 1974).

11           “(4) CONSIDERATION OF HIGH INCIDENCE OF  
12 CRIME.—The Secretary of Housing and Urban Devel-  
13 opment shall take into account, in selecting nomi-  
14 nated areas for designation as renewal communities  
15 under this section, the extent to which such areas have  
16 a high incidence of crime.

17           “(5) CONSIDERATION OF COMMUNITIES IDENTI-  
18 FIED IN GAO STUDY.—The Secretary of Housing and  
19 Urban Development shall take into account, in select-  
20 ing nominated areas for designation as renewal com-  
21 munities under this section, if the area has census  
22 tracts identified in the May 12, 1998, report of the  
23 Government Accounting Office regarding the identi-  
24 fication of economically distressed areas.

25           “(d) REQUIRED STATE AND LOCAL COMMITMENTS.—



1           “(1) *IN GENERAL.*—*The Secretary of Housing*  
2           *and Urban Development may designate any nomi-*  
3           *nated area as a renewal community under subsection*  
4           *(a) only if—*

5                     “(A) *the local government and the State in*  
6                     *which the area is located agree in writing that,*  
7                     *during any period during which the area is a re-*  
8                     *newal community, such governments will follow*  
9                     *a specified course of action which meets the re-*  
10                    *quirements of paragraph (2) and is designed to*  
11                    *reduce the various burdens borne by employers or*  
12                    *employees in such area; and*

13                   “(B) *the economic growth promotion re-*  
14                    *quirements of paragraph (3) are met.*

15           “(2) *COURSE OF ACTION.*—

16                   “(A) *IN GENERAL.*—*A course of action*  
17                    *meets the requirements of this paragraph if such*  
18                    *course of action is a written document, signed by*  
19                    *a State (or local government) and neighborhood*  
20                    *organizations, which evidences a partnership be-*  
21                    *tween such State or government and community-*  
22                    *based organizations and which commits each sig-*  
23                    *natory to specific and measurable goals, actions,*  
24                    *and timetables. Such course of action shall in-*  
25                    *clude at least five of the following:*

1           “(i) *A reduction of tax rates or fees ap-*  
2           *plying within the renewal community.*

3           “(ii) *An increase in the level of effi-*  
4           *ciency of local services within the renewal*  
5           *community.*

6           “(iii) *Crime reduction strategies, such*  
7           *as crime prevention (including the provi-*  
8           *sion of such services by nongovernmental*  
9           *entities).*

10          “(iv) *Actions to reduce, remove, sim-*  
11          *plify, or streamline governmental require-*  
12          *ments applying within the renewal commu-*  
13          *nity.*

14          “(v) *Involvement in the program by*  
15          *private entities, organizations, neighborhood*  
16          *organizations, and community groups, par-*  
17          *ticularly those in the renewal community,*  
18          *including a commitment from such private*  
19          *entities to provide jobs and job training for,*  
20          *and technical, financial, or other assistance*  
21          *to, employers, employees, and residents from*  
22          *the renewal community.*

23          “(vi) *State or local income tax benefits*  
24          *for fees paid for services performed by a*

1           nongovernmental entity which were for-  
2           merly performed by a governmental entity.

3           “(vii) *The gift (or sale at below fair*  
4           *market value) of surplus real property (such*  
5           *as land, homes, and commercial or indus-*  
6           *trial structures) in the renewal community*  
7           *to neighborhood organizations, community*  
8           *development corporations, or private com-*  
9           *panies.*

10          “(B) *RECOGNITION OF PAST EFFORTS.—For*  
11          *purposes of this section, in evaluating the course*  
12          *of action agreed to by any State or local govern-*  
13          *ment, the Secretary of Housing and Urban De-*  
14          *velopment shall take into account the past efforts*  
15          *of such State or local government in reducing the*  
16          *various burdens borne by employers and employ-*  
17          *ees in the area involved.*

18          “(3) *ECONOMIC GROWTH PROMOTION REQUIRE-*  
19          *MENTS.—The economic growth promotion require-*  
20          *ments of this paragraph are met with respect to a*  
21          *nominated area if the local government and the State*  
22          *in which such area is located certify in writing that*  
23          *such government and State, respectively, have re-*  
24          *pealed or otherwise will not enforce within the area,*  
25          *if such area is designated as a renewal community—*

1           “(A) *licensing requirements for occupations*  
 2           *that do not ordinarily require a professional de-*  
 3           *gree;*

4           “(B) *zoning restrictions on home-based*  
 5           *businesses which do not create a public nuisance;*

6           “(C) *permit requirements for street vendors*  
 7           *who do not create a public nuisance;*

8           “(D) *zoning or other restrictions that im-*  
 9           *pede the formation of schools or child care cen-*  
 10          *ters; and*

11          “(E) *franchises or other restrictions on com-*  
 12          *petition for businesses providing public services,*  
 13          *including but not limited to taxicabs, jitneys,*  
 14          *cable television, or trash hauling,*  
 15          *except to the extent that such regulation of businesses*  
 16          *and occupations is necessary for and well-tailored to*  
 17          *the protection of health and safety.*

18          “(e) *COORDINATION WITH TREATMENT OF EMPOWER-*  
 19          *MENT ZONES AND ENTERPRISE COMMUNITIES.—For pur-*  
 20          *poses of this title, if there are in effect with respect to the*  
 21          *same area both—*

22                 “(1) *a designation as a renewal community; and*

23                 “(2) *a designation as an empowerment zone or*  
 24                 *enterprise community,*

1 *both of such designations shall be given full effect with re-*  
 2 *spect to such area.*

3 “(f) *DEFINITIONS AND SPECIAL RULES.—For pur-*  
 4 *poses of this subchapter—*

5 “(1) *GOVERNMENTS.—If more than one govern-*  
 6 *ment seeks to nominate an area as a renewal commu-*  
 7 *nity, any reference to, or requirement of, this section*  
 8 *shall apply to all such governments.*

9 “(2) *STATE.—The term ‘State’ includes Puerto*  
 10 *Rico, the Virgin Islands of the United States, Guam,*  
 11 *American Samoa, the Northern Mariana Islands, and*  
 12 *any other possession of the United States.*

13 “(3) *LOCAL GOVERNMENT.—The term ‘local gov-*  
 14 *ernment’ means—*

15 “(A) *any county, city, town, township, par-*  
 16 *ish, village, or other general purpose political*  
 17 *subdivision of a State;*

18 “(B) *any combination of political subdivi-*  
 19 *sions described in subparagraph (A) recognized*  
 20 *by the Secretary of Housing and Urban Develop-*  
 21 *ment; and*

22 “(C) *the District of Columbia.*

23 “(4) *APPLICATION OF RULES RELATING TO CEN-*  
 24 *SUS TRACTS AND CENSUS DATA.—The rules of sections*  
 25 *1392(b)(4) and 1393(a)(9) shall apply.*

1   **“PART II—RENEWAL COMMUNITY CAPITAL GAIN;**  
 2                   **RENEWAL COMMUNITY BUSINESS**

“Sec. 1400F. Renewal community capital gain.

“Sec. 1400G. Renewal community business defined.

3   **“SEC. 1400F. RENEWAL COMMUNITY CAPITAL GAIN.**

4           “(a) *GENERAL RULE.*—Gross income does not include  
 5 any qualified capital gain recognized on the sale or ex-  
 6 change of a qualified community asset held for more than  
 7 5 years.

8           “(b) *QUALIFIED COMMUNITY ASSET.*—For purposes of  
 9 this section—

10           “(1) *IN GENERAL.*—The term ‘qualified commu-  
 11 nity asset’ means—

12                   “(A) any qualified community stock;

13                   “(B) any qualified community partnership  
 14 interest; and

15                   “(C) any qualified community business  
 16 property.

17           “(2) *QUALIFIED COMMUNITY STOCK.*—

18                   “(A) *IN GENERAL.*—Except as provided in  
 19 subparagraph (B), the term ‘qualified commu-  
 20 nity stock’ means any stock in a domestic cor-  
 21 poration if—

22                           “(i) such stock is acquired by the tax-  
 23 payer after December 31, 2000, and before  
 24 January 1, 2008, at its original issue (di-

1                   rectly or through an underwriter) from the  
2                   corporation solely in exchange for cash;

3                   “(ii) as of the time such stock was  
4                   issued, such corporation was a renewal  
5                   community business (or, in the case of a  
6                   new corporation, such corporation was  
7                   being organized for purposes of being a re-  
8                   newal community business); and

9                   “(iii) during substantially all of the  
10                  taxpayer’s holding period for such stock,  
11                  such corporation qualified as a renewal  
12                  community business.

13                  “(B) REDEMPTIONS.—A rule similar to the  
14                  rule of section 1202(c)(3) shall apply for pur-  
15                  poses of this paragraph.

16                  “(3) QUALIFIED COMMUNITY PARTNERSHIP IN-  
17                  TEREST.—The term ‘qualified community partner-  
18                  ship interest’ means any capital or profits interest in  
19                  a domestic partnership if—

20                         “(A) such interest is acquired by the tax-  
21                         payer after December 31, 2000, and before Janu-  
22                         ary 1, 2008;

23                         “(B) as of the time such interest was ac-  
24                         quired, such partnership was a renewal commu-  
25                         nity business (or, in the case of a new partner-

1       *ship, such partnership was being organized for*  
 2       *purposes of being a renewal community busi-*  
 3       *ness); and*

4               “(C) *during substantially all of the tax-*  
 5       *payer’s holding period for such interest, such*  
 6       *partnership qualified as a renewal community*  
 7       *business.*

8       *A rule similar to the rule of paragraph (2)(B) shall*  
 9       *apply for purposes of this paragraph.*

10           “(4) *QUALIFIED COMMUNITY BUSINESS PROP-*  
 11       *ERTY.—*

12               “(A) *IN GENERAL.—The term ‘qualified*  
 13       *community business property’ means tangible*  
 14       *property if—*

15               “(i) *such property was acquired by the*  
 16       *taxpayer by purchase (as defined in section*  
 17       *179(d)(2)) after December 31, 2000, and be-*  
 18       *fore January 1, 2008;*

19               “(ii) *the original use of such property*  
 20       *in the renewal community commences with*  
 21       *the taxpayer; and*

22               “(iii) *during substantially all of the*  
 23       *taxpayer’s holding period for such property,*  
 24       *substantially all of the use of such property*



1                   *was in a renewal community business of the*  
 2                   *taxpayer.*

3                   “(B) *SPECIAL RULE FOR SUBSTANTIAL IM-*  
 4                   *PROVEMENTS.—The requirements of clauses (i)*  
 5                   *and (ii) of subparagraph (A) shall be treated as*  
 6                   *satisfied with respect to—*

7                   “(i) *property which is substantially*  
 8                   *improved (within the meaning of section*  
 9                   *1400B(b)(4)(B)(ii)) by the taxpayer before*  
 10                   *January 1, 2008; and*

11                   “(ii) *any land on which such property*  
 12                   *is located.*

13                   “(c) *CERTAIN RULES TO APPLY.—Rules similar to the*  
 14                   *rules of paragraphs (5), (6), and (7) of subsection (b), and*  
 15                   *subsections (e), (f), and (g), of section 1400B shall apply*  
 16                   *for purposes of this section.*

17                   **“SEC. 1400G. RENEWAL COMMUNITY BUSINESS DEFINED.**

18                   *“For purposes of this part, the term ‘renewal commu-*  
 19                   *nity business’ means any entity or proprietorship which*  
 20                   *would be a qualified business entity or qualified proprietor-*  
 21                   *ship under section 1397B if—*

22                   “(1) *references to renewal communities were sub-*  
 23                   *stituted for references to empowerment zones in such*  
 24                   *section; and*

1           “(2) ‘80 percent’ were substituted for ‘50 percent’  
 2           in subsections (b)(2) and (c)(1) of such section.

3           **“PART III—FAMILY DEVELOPMENT ACCOUNTS**

          “Sec. 1400H. Family development accounts for renewal community  
           EITC recipients.

          “Sec. 1400I. Demonstration program to provide matching contribu-  
           tions to family development accounts in certain re-  
           newal communities.

          “Sec. 1400J. Designation of earned income tax credit payments for  
           deposit to family development account.

4           **“SEC. 1400H. FAMILY DEVELOPMENT ACCOUNTS FOR RE-**  
 5           **NEWAL COMMUNITY EITC RECIPIENTS.**

6           “(a) ALLOWANCE OF DEDUCTION.—

7           “(1) IN GENERAL.—There shall be allowed as a  
 8           deduction—

9           “(A) in the case of a qualified individual,  
 10           the amount paid in cash for the taxable year by  
 11           such individual to any family development ac-  
 12           count for such individual’s benefit; and

13           “(B) in the case of any person other than  
 14           a qualified individual, the amount paid in cash  
 15           for the taxable year by such person to any fam-  
 16           ily development account for the benefit of a  
 17           qualified individual but only if the amount so  
 18           paid is designated for purposes of this section by  
 19           such individual.

20           No deduction shall be allowed under this paragraph  
 21           for any amount deposited in a family development  
 22           account under section 1400I (relating to demonstra-

tion program to provide matching amounts in renewal communities).

“(2) *LIMITATION.*—

“(A) *IN GENERAL.*—The amount allowable as a deduction to any individual for any taxable year by reason of paragraph (1)(A) shall not exceed the lesser of—

“(i) \$2,000, or

“(ii) an amount equal to the compensation includible in the individual’s gross income for such taxable year.

“(B) *PERSONS DONATING TO FAMILY DEVELOPMENT ACCOUNTS OF OTHERS.*—The amount which may be designated under paragraph (1)(B) by any qualified individual for any taxable year of such individual shall not exceed \$1,000.

“(3) *SPECIAL RULES FOR CERTAIN MARRIED INDIVIDUALS.*—Rules similar to rules of section 219(c) shall apply to the limitation in paragraph (2)(A).

“(4) *COORDINATION WITH IRAS.*—No deduction shall be allowed under this section for any taxable year to any person by reason of a payment to an account for the benefit of a qualified individual if any amount is paid for such taxable year into an indi-

1        *vidual retirement account (including a Roth IRA) for*  
 2        *the benefit of such individual.*

3                “(5) *ROLLOVERS.*—*No deduction shall be allowed*  
 4        *under this section with respect to any rollover con-*  
 5        *tribution.*

6                “(b) *TAX TREATMENT OF DISTRIBUTIONS.*—

7                “(1) *INCLUSION OF AMOUNTS IN GROSS IN-*  
 8        *COME.*—*Except as otherwise provided in this sub-*  
 9        *section, any amount paid or distributed out of a fam-*  
 10       *ily development account shall be included in gross in-*  
 11       *come by the payee or distributee, as the case may be.*

12               “(2) *EXCLUSION OF QUALIFIED FAMILY DEVEL-*  
 13       *OPMENT DISTRIBUTIONS.*—*Paragraph (1) shall not*  
 14       *apply to any qualified family development distribu-*  
 15       *tion.*

16               “(c) *QUALIFIED FAMILY DEVELOPMENT DISTRIBUTI-*  
 17       *ON.*—*For purposes of this section—*

18               “(1) *IN GENERAL.*—*The term ‘qualified family*  
 19       *development distribution’ means any amount paid or*  
 20       *distributed out of a family development account*  
 21       *which would otherwise be includible in gross income,*  
 22       *to the extent that such payment or distribution is*  
 23       *used exclusively to pay qualified family development*  
 24       *expenses for the holder of the account or the spouse or*  
 25       *dependent (as defined in section 152) of such holder.*

1           “(2) *QUALIFIED FAMILY DEVELOPMENT EX-*  
 2           *PENSES.*—*The term ‘qualified family development ex-*  
 3           *penses’ means any of the following:*

4                     “(A) *Qualified higher education expenses.*

5                     “(B) *Qualified first-time homebuyer costs.*

6                     “(C) *Qualified business capitalization costs.*

7                     “(D) *Qualified medical expenses.*

8                     “(E) *Qualified rollovers.*

9           “(3) *QUALIFIED HIGHER EDUCATION EX-*  
 10           *PENSES.*—

11                    “(A) *IN GENERAL.*—*The term ‘qualified*  
 12                    *higher education expenses’ has the meaning given*  
 13                    *such term by section 72(t)(7), determined by*  
 14                    *treating postsecondary vocational educational*  
 15                    *schools as eligible educational institutions.*

16                    “(B) *POSTSECONDARY VOCATIONAL EDU-*  
 17                    *CATION SCHOOL.*—*The term ‘postsecondary voca-*  
 18                    *tional educational school’ means an area voca-*  
 19                    *tional education school (as defined in subpara-*  
 20                    *graph (C) or (D) of section 521(4) of the Carl D.*  
 21                    *Perkins Vocational and Applied Technology*  
 22                    *Education Act (20 U.S.C. 2471(4))) which is in*  
 23                    *any State (as defined in section 521(33) of such*  
 24                    *Act), as such sections are in effect on the date of*  
 25                    *the enactment of this section.*

1           “(C) *COORDINATION WITH OTHER BENE-*  
 2           *FITS.—The amount of qualified higher education*  
 3           *expenses for any taxable year shall be reduced as*  
 4           *provided in section 25A(g)(2).*

5           “(4) *QUALIFIED FIRST-TIME HOMEBUYER*  
 6           *COSTS.—The term ‘qualified first-time homebuyer*  
 7           *costs’ means qualified acquisition costs (as defined in*  
 8           *section 72(t)(8) without regard to subparagraph (B)*  
 9           *thereof) with respect to a principal residence (within*  
 10           *the meaning of section 121) for a qualified first-time*  
 11           *homebuyer (as defined in section 72(t)(8)).*

12           “(5) *QUALIFIED BUSINESS CAPITALIZATION*  
 13           *COSTS.—*

14           “(A) *IN GENERAL.—The term ‘qualified*  
 15           *business capitalization costs’ means qualified ex-*  
 16           *penditures for the capitalization of a qualified*  
 17           *business pursuant to a qualified plan.*

18           “(B) *QUALIFIED EXPENDITURES.—The*  
 19           *term ‘qualified expenditures’ means expenditures*  
 20           *included in a qualified plan, including capital,*  
 21           *plant, equipment, working capital, and inven-*  
 22           *tory expenses.*

23           “(C) *QUALIFIED BUSINESS.—The term*  
 24           *‘qualified business’ means any trade or business*  
 25           *other than any trade or business—*

1 “(i) which consists of the operation of  
 2 any facility described in section  
 3 144(c)(6)(B), or

4 “(ii) which contravenes any law.

5 “(D) QUALIFIED PLAN.—The term ‘quali-  
 6 fied plan’ means a business plan which meets  
 7 such requirements as the Secretary may specify.

8 “(6) QUALIFIED MEDICAL EXPENSES.—The term  
 9 ‘qualified medical expenses’ means any amount paid  
 10 during the taxable year, not compensated for by in-  
 11 surance or otherwise, for medical care (as defined in  
 12 section 213(d)) of the taxpayer, his spouse, or his de-  
 13 pendent (as defined in section 152).

14 “(7) QUALIFIED ROLLOVERS.—The term ‘quali-  
 15 fied rollover’ means any amount paid from a family  
 16 development account of a taxpayer into another such  
 17 account established for the benefit of—

18 “(A) such taxpayer, or

19 “(B) any qualified individual who is—

20 “(i) the spouse of such taxpayer, or

21 “(ii) any dependent (as defined in sec-  
 22 tion 152) of the taxpayer.

23 Rules similar to the rules of section 408(d)(3) shall  
 24 apply for purposes of this paragraph.

25 “(d) TAX TREATMENT OF ACCOUNTS.—

1           “(1) *IN GENERAL.*—Any family development ac-  
 2           count is exempt from taxation under this subtitle un-  
 3           less such account has ceased to be a family develop-  
 4           ment account by reason of paragraph (2). Notwith-  
 5           standing the preceding sentence, any such account is  
 6           subject to the taxes imposed by section 511 (relating  
 7           to imposition of tax on unrelated business income of  
 8           charitable, etc., organizations). Notwithstanding any  
 9           other provision of this title (including chapters 11  
 10          and 12), the basis of any person in such an account  
 11          is zero.

12           “(2) *LOSS OF EXEMPTION IN CASE OF PROHIB-*  
 13          *ITED TRANSACTIONS.*—For purposes of this section,  
 14          rules similar to the rules of section 408(e) shall apply.

15           “(3) *OTHER RULES TO APPLY.*—Rules similar to  
 16          the rules of paragraphs (4), (5), and (6) of section  
 17          408(d) shall apply for purposes of this section.

18          “(e) *FAMILY DEVELOPMENT ACCOUNT.*—For purposes  
 19          of this title, the term ‘family development account’ means  
 20          a trust created or organized in the United States for the  
 21          exclusive benefit of a qualified individual or his bene-  
 22          ficiaries, but only if the written governing instrument cre-  
 23          ating the trust meets the following requirements:

24           “(1) *Except in the case of a qualified rollover (as*  
 25          *defined in subsection (c)(7))—*



1           “(A) no contribution will be accepted unless  
2           it is in cash; and

3           “(B) contributions will not be accepted for  
4           the taxable year in excess of \$3,000 (determined  
5           without regard to any contribution made under  
6           section 1400I (relating to demonstration pro-  
7           gram to provide matching amounts in renewal  
8           communities)).

9           “(2) The requirements of paragraphs (2) through  
10          (6) of section 408(a) are met.

11          “(f) *QUALIFIED INDIVIDUAL*.—For purposes of this  
12          section, the term ‘qualified individual’ means, for any tax-  
13          able year, an individual—

14               “(1) who is a bona fide resident of a renewal  
15          community throughout the taxable year; and

16               “(2) to whom a credit was allowed under section  
17          32 for the preceding taxable year.

18          “(g) *OTHER DEFINITIONS AND SPECIAL RULES*.—

19               “(1) *COMPENSATION*.—The term ‘compensation’  
20          has the meaning given such term by section 219(f)(1).

21               “(2) *MARRIED INDIVIDUALS*.—The maximum de-  
22          duction under subsection (a) shall be computed sepa-  
23          rately for each individual, and this section shall be  
24          applied without regard to any community property  
25          laws.

1           “(3) *TIME WHEN CONTRIBUTIONS DEEMED*  
2           *MADE.*—*For purposes of this section, a taxpayer shall*  
3           *be deemed to have made a contribution to a family*  
4           *development account on the last day of the preceding*  
5           *taxable year if the contribution is made on account*  
6           *of such taxable year and is made not later than the*  
7           *time prescribed by law for filing the return for such*  
8           *taxable year (not including extensions thereof).*

9           “(4) *EMPLOYER PAYMENTS; CUSTODIAL AC-*  
10          *COUNTS.*—*Rules similar to the rules of sections*  
11          *219(f)(5) and 408(h) shall apply for purposes of this*  
12          *section.*

13          “(5) *REPORTS.*—*The trustee of a family develop-*  
14          *ment account shall make such reports regarding such*  
15          *account to the Secretary and to the individual for*  
16          *whom the account is maintained with respect to con-*  
17          *tributions (and the years to which they relate), dis-*  
18          *tributions, and such other matters as the Secretary*  
19          *may require under regulations. The reports required*  
20          *by this paragraph—*

21                 “(A) *shall be filed at such time and in such*  
22                 *manner as the Secretary prescribes in such regu-*  
23                 *lations; and*

24                 “(B) *shall be furnished to individuals—*

1                   “(i) not later than January 31 of the  
2                   calendar year following the calendar year to  
3                   which such reports relate; and

4                   “(ii) in such manner as the Secretary  
5                   prescribes in such regulations.

6                   “(6) INVESTMENT IN COLLECTIBLES TREATED AS  
7                   DISTRIBUTIONS.—Rules similar to the rules of section  
8                   408(m) shall apply for purposes of this section.

9                   “(h) PENALTY FOR DISTRIBUTIONS NOT USED FOR  
10                  QUALIFIED FAMILY DEVELOPMENT EXPENSES.—

11                  “(1) IN GENERAL.—If any amount is distributed  
12                  from a family development account and is not used  
13                  exclusively to pay qualified family development ex-  
14                  penses for the holder of the account or the spouse or  
15                  dependent (as defined in section 152) of such holder,  
16                  the tax imposed by this chapter for the taxable year  
17                  of such distribution shall be increased by the sum  
18                  of—

19                  “(A) 100 percent of the portion of such  
20                  amount which is includible in gross income and  
21                  is attributable to amounts contributed under sec-  
22                  tion 1400I (relating to demonstration program  
23                  to provide matching amounts in renewal com-  
24                  munities); and

1                   “(B) 10 percent of the portion of such  
 2                   amount which is includible in gross income and  
 3                   is not described in subparagraph (A).

4                   For purposes of this subsection, distributions which  
 5                   are includable in gross income shall be treated as at-  
 6                   tributable to amounts contributed under section 1400I  
 7                   to the extent thereof. For purposes of the preceding  
 8                   sentence, all family development accounts of an indi-  
 9                   vidual shall be treated as one account.

10                  “(2) EXCEPTION FOR CERTAIN DISTRIBUTIONS.—  
 11                  Paragraph (1) shall not apply to distributions which  
 12                  are—

13                         “(A) made on or after the date on which the  
 14                         account holder attains age 59½,

15                         “(B) made to a beneficiary (or the estate of  
 16                         the account holder) on or after the death of the  
 17                         account holder, or

18                         “(C) attributable to the account holder’s  
 19                         being disabled within the meaning of section  
 20                         72(m)(7).

21                  “(i) APPLICATION OF SECTION.—This section shall  
 22                  apply to amounts paid to a family development account  
 23                  for any taxable year beginning after December 31, 2000,  
 24                  and before January 1, 2008.

1 **“SEC. 1400I. DEMONSTRATION PROGRAM TO PROVIDE**  
 2 **MATCHING CONTRIBUTIONS TO FAMILY DE-**  
 3 **VELOPMENT ACCOUNTS IN CERTAIN RE-**  
 4 **NEWAL COMMUNITIES.**

5 “(a) *DESIGNATION.*—

6 “(1) *DEFINITIONS.*—*For purposes of this section,*  
 7 *the term ‘FDA matching demonstration area’ means*  
 8 *any renewal community—*

9 “(A) *which is nominated under this section*  
 10 *by each of the local governments and States*  
 11 *which nominated such community for designa-*  
 12 *tion as a renewal community under section*  
 13 *1400E(a)(1)(A); and*

14 “(B) *which the Secretary of Housing and*  
 15 *Urban Development designates as an FDA*  
 16 *matching demonstration area after consultation*  
 17 *with—*

18 “(i) *the Secretaries of Agriculture,*  
 19 *Commerce, Labor, and the Treasury, the*  
 20 *Director of the Office of Management and*  
 21 *Budget, and the Administrator of the Small*  
 22 *Business Administration; and*

23 “(ii) *in the case of a community on an*  
 24 *Indian reservation, the Secretary of the In-*  
 25 *terior.*

26 “(2) *NUMBER OF DESIGNATIONS.*—

1           “(A) *IN GENERAL.*—*The Secretary of Hous-*  
 2           *ing and Urban Development may designate not*  
 3           *more than 5 renewal communities as FDA*  
 4           *matching demonstration areas.*

5           “(B) *MINIMUM DESIGNATION IN RURAL*  
 6           *AREAS.*—*Of the areas designated under subpara-*  
 7           *graph (A), at least 2 must be areas described in*  
 8           *section 1400E(a)(2)(B).*

9           “(3) *LIMITATIONS ON DESIGNATIONS.*—

10           “(A) *PUBLICATION OF REGULATIONS.*—*The*  
 11           *Secretary of Housing and Urban Development*  
 12           *shall prescribe by regulation no later than 4*  
 13           *months after the date of the enactment of this*  
 14           *section, after consultation with the officials de-*  
 15           *scribed in paragraph (1)(B)—*

16           “(i) *the procedures for nominating a*  
 17           *renewal community under paragraph*  
 18           *(1)(A) (including procedures for coordi-*  
 19           *nating such nomination with the nomina-*  
 20           *tion of an area for designation as a renewal*  
 21           *community under section 1400E); and*

22           “(ii) *the manner in which nominated*  
 23           *renewal communities will be evaluated for*  
 24           *purposes of this section.*

1                   “(B) *TIME LIMITATIONS.*—*The Secretary of*  
 2                   *Housing and Urban Development may designate*  
 3                   *renewal communities as FDA matching dem-*  
 4                   *onstration areas only during the 24-month pe-*  
 5                   *riod beginning on the first day of the first month*  
 6                   *following the month in which the regulations de-*  
 7                   *scribed in subparagraph (A) are prescribed.*

8                   “(4) *DESIGNATION BASED ON DEGREE OF POV-*  
 9                   *ERTY, ETC.*—*The rules of section 1400E(a)(3) shall*  
 10                  *apply for purposes of designations of FDA matching*  
 11                  *demonstration areas under this section.*

12                  “(b) *PERIOD FOR WHICH DESIGNATION IS IN EF-*  
 13                  *FECT.*—*Any designation of a renewal community as an*  
 14                  *FDA matching demonstration area shall remain in effect*  
 15                  *during the period beginning on the date of such designation*  
 16                  *and ending on the date on which such area ceases to be*  
 17                  *a renewal community.*

18                  “(c) *MATCHING CONTRIBUTIONS TO FAMILY DEVELOP-*  
 19                  *MENT ACCOUNTS.*—

20                       “(1) *IN GENERAL.*—*Not less than once each tax-*  
 21                       *able year, the Secretary shall deposit (to the extent*  
 22                       *provided in appropriation Acts) into a family devel-*  
 23                       *opment account of each qualified individual (as de-*  
 24                       *finied in section 1400H(f))—*

1           “(A) *who is a resident throughout the tax-*  
 2           *able year of an FDA matching demonstration*  
 3           *area; and*

4           “(B) *who requests (in such form and man-*  
 5           *ner as the Secretary prescribes) such deposit for*  
 6           *the taxable year,*  
 7           *an amount equal to the sum of the amounts deposited*  
 8           *into all of the family development accounts of such*  
 9           *individual during such taxable year (determined*  
 10          *without regard to any amount contributed under this*  
 11          *section).*

12          “(2) *LIMITATIONS.—*

13           “(A) *ANNUAL LIMIT.—The Secretary shall*  
 14           *not deposit more than \$1000 under paragraph*  
 15           *(1) with respect to any individual for any tax-*  
 16           *able year.*

17           “(B) *AGGREGATE LIMIT.—The Secretary*  
 18           *shall not deposit more than \$2000 under para-*  
 19           *graph (1) with respect to any individual for all*  
 20           *taxable years.*

21           “(3) *EXCLUSION FROM INCOME.—Except as pro-*  
 22           *vided in section 1400H, gross income shall not in-*  
 23           *clude any amount deposited into a family develop-*  
 24           *ment account under paragraph (1).*



1       “(d) *NOTICE OF PROGRAM.*—*The Secretary shall pro-*  
 2 *vide appropriate notice to residents of FDA matching dem-*  
 3 *onstration areas of the availability of the benefits under this*  
 4 *section.*

5       “(e) *TERMINATION.*—*No amount may be deposited*  
 6 *under this section for any taxable year beginning after De-*  
 7 *cember 31, 2007.*

8       **“SEC. 1400J. DESIGNATION OF EARNED INCOME TAX CRED-**  
 9                               **IT PAYMENTS FOR DEPOSIT TO FAMILY DE-**  
 10                              **VELOPMENT ACCOUNT.**

11       “(a) *IN GENERAL.*—*With respect to the return of any*  
 12 *qualified individual (as defined in section 1400H(f)) for the*  
 13 *taxable year of the tax imposed by this chapter, such indi-*  
 14 *vidual may designate that a specified portion (not less than*  
 15 *\$1) of any overpayment of tax for such taxable year which*  
 16 *is attributable to the earned income tax credit shall be de-*  
 17 *posited by the Secretary into a family development account*  
 18 *of such individual. The Secretary shall so deposit such por-*  
 19 *tion designated under this subsection.*

20       “(b) *MANNER AND TIME OF DESIGNATION.*—*A des-*  
 21 *ignation under subsection (a) may be made with respect*  
 22 *to any taxable year—*

23               “(1) *at the time of filing the return of the tax*  
 24 *imposed by this chapter for such taxable year, or*

1           “(2) at any other time (after the time of filing  
 2           the return of the tax imposed by this chapter for such  
 3           taxable year) specified in regulations prescribed by  
 4           the Secretary.

5   Such designation shall be made in such manner as the Sec-  
 6   retary prescribes by regulations.

7           “(c) *PORTION ATTRIBUTABLE TO EARNED INCOME*  
 8   *TAX CREDIT.*—For purposes of subsection (a), an overpay-  
 9   ment for any taxable year shall be treated as attributable  
 10   to the earned income tax credit to the extent that such over-  
 11   payment does not exceed the credit allowed to the taxpayer  
 12   under section 32 for such taxable year.

13          “(d) *OVERPAYMENTS TREATED AS REFUNDED.*—For  
 14   purposes of this title, any portion of an overpayment of tax  
 15   designated under subsection (a) shall be treated as being  
 16   refunded to the taxpayer as of the last date prescribed for  
 17   filing the return of tax imposed by this chapter (determined  
 18   without regard to extensions) or, if later, the date the return  
 19   is filed.

20          “(e) *TERMINATION.*—This section shall not apply to  
 21   any taxable year beginning after December 31, 2007.

22           **“PART IV—ADDITIONAL INCENTIVES**

“Sec. 1400K. Commercial revitalization deduction.

“Sec. 1400L. Increase in expensing under section 179.

1 **“SEC. 1400K. COMMERCIAL REVITALIZATION DEDUCTION.**

2       “(a) *GENERAL RULE.*—*At the election of the taxpayer,*  
3 *either—*

4               “(1) *one-half of any qualified revitalization ex-*  
5 *penditures chargeable to capital account with respect*  
6 *to any qualified revitalization building shall be allow-*  
7 *able as a deduction for the taxable year in which the*  
8 *building is placed in service, or*

9               “(2) *a deduction for all such expenditures shall*  
10 *be allowable ratably over the 120-month period begin-*  
11 *ning with the month in which the building is placed*  
12 *in service.*

13 *The deduction provided by this section with respect to such*  
14 *expenditure shall be in lieu of any depreciation deduction*  
15 *otherwise allowable on account of such expenditure.*

16       “(b) *QUALIFIED REVITALIZATION BUILDINGS AND EX-*  
17 *PENDITURES.*—*For purposes of this section—*

18               “(1) *QUALIFIED REVITALIZATION BUILDING.*—  
19 *The term ‘qualified revitalization building’ means*  
20 *any building (and its structural components) if—*

21                       “(A) *such building is located in a renewal*  
22 *community and is placed in service after Decem-*  
23 *ber 31, 2000;*

24                       “(B) *a commercial revitalization deduction*  
25 *amount is allocated to the building under sub-*  
26 *section (d); and*

1           “(C) depreciation (or amortization in lieu  
2           of depreciation) is allowable with respect to the  
3           building (without regard to this section).

4           “(2) QUALIFIED REVITALIZATION EXPENDI-  
5           TURE.—

6           “(A) IN GENERAL.—The term ‘qualified re-  
7           vitalization expenditure’ means any amount  
8           properly chargeable to capital account—

9           “(i) for property for which deprecia-  
10          tion is allowable under section 168 (without  
11          regard to this section) and which is—

12                   “(I) nonresidential real property;  
13                   or

14                   “(II) an addition or improvement  
15                   to property described in subclause (I);

16           “(ii) in connection with the construc-  
17          tion of any qualified revitalization building  
18          which was not previously placed in service  
19          or in connection with the substantial reha-  
20          bilitation (within the meaning of section  
21          47(c)(1)(C)) of a building which was placed  
22          in service before the beginning of such reha-  
23          bilitation; and

1           “(iii) for land (including land which  
2           is functionally related to such property and  
3           subordinate thereto).

4           “(B) DOLLAR LIMITATION.—The aggregate  
5           amount which may be treated as qualified re-  
6           vitalization expenditures with respect to any  
7           qualified revitalization building for any taxable  
8           year shall not exceed the excess of—

9                   “(i) \$10,000,000, reduced by

10                   “(ii) any such expenditures with re-  
11                   spect to the building taken into account by  
12                   the taxpayer or any predecessor in deter-  
13                   mining the amount of the deduction under  
14                   this section for all preceding taxable years.

15           “(C) CERTAIN EXPENDITURES NOT IN-  
16           CLUDED.—The term ‘qualified revitalization ex-  
17           penditure’ does not include—

18                   “(i) ACQUISITION COSTS.—The costs of  
19                   acquiring any building or interest therein  
20                   and any land in connection with such  
21                   building to the extent that such costs exceed  
22                   30 percent of the qualified revitalization ex-  
23                   penditures determined without regard to  
24                   this clause.

1                   “(ii) *CREDITS.—Any expenditure*  
 2                   *which the taxpayer may take into account*  
 3                   *in computing any credit allowable under*  
 4                   *this title unless the taxpayer elects to take*  
 5                   *the expenditure into account only for pur-*  
 6                   *poses of this section.*

7           “(c) *WHEN EXPENDITURES TAKEN INTO ACCOUNT.—*  
 8           *Qualified revitalization expenditures with respect to any*  
 9           *qualified revitalization building shall be taken into account*  
 10           *for the taxable year in which the qualified revitalization*  
 11           *building is placed in service. For purposes of the preceding*  
 12           *sentence, a substantial rehabilitation of a building shall be*  
 13           *treated as a separate building.*

14           “(d) *LIMITATION ON AGGREGATE DEDUCTIONS AL-*  
 15           *LOWABLE WITH RESPECT TO BUILDINGS LOCATED IN A*  
 16           *STATE.—*

17                   “(1) *IN GENERAL.—The amount of the deduction*  
 18                   *determined under this section for any taxable year*  
 19                   *with respect to any building shall not exceed the com-*  
 20                   *mercial revitalization deduction amount (in the case*  
 21                   *of an amount determined under subsection (a)(2), the*  
 22                   *present value of such amount as determined under the*  
 23                   *rules of section 42(b)(2)(C) by substituting ‘100 per-*  
 24                   *cent’ for ‘72 percent’ in clause (ii) thereof) allocated*  
 25                   *to such building under this subsection by the commer-*

1      *cial revitalization agency. Such allocation shall be*  
 2      *made at the same time and in the same manner as*  
 3      *under paragraphs (1) and (7) of section 42(h).*

4            “(2) *COMMERCIAL REVITALIZATION DEDUCTION*  
 5      *AMOUNT FOR AGENCIES.—*

6            “(A) *IN GENERAL.—The aggregate commer-*  
 7      *cial revitalization deduction amount which a*  
 8      *commercial revitalization agency may allocate*  
 9      *for any calendar year is the amount of the State*  
 10     *commercial revitalization deduction ceiling de-*  
 11     *termined under this paragraph for such calendar*  
 12     *year for such agency.*

13          “(B) *STATE COMMERCIAL REVITALIZATION*  
 14     *DEDUCTION CEILING.—The State commercial re-*  
 15     *vitalization deduction ceiling applicable to any*  
 16     *State—*

17            “(i) *for each calendar year after 2000*  
 18            *and before 2008 is \$6,000,000 for each re-*  
 19            *newal community in the State; and*

20            “(ii) *zero for each calendar year there-*  
 21            *after.*

22          “(C) *COMMERCIAL REVITALIZATION AGEN-*  
 23     *CY.—For purposes of this section, the term ‘com-*  
 24     *mercial revitalization agency’ means any agency*  
 25     *authorized by a State to carry out this section.*

1       “(e) *RESPONSIBILITIES OF COMMERCIAL REVITALIZA-*  
 2   *TION AGENCIES.*—

3               “(1) *PLANS FOR ALLOCATION.*—*Notwithstanding*  
 4       *any other provision of this section, the commercial re-*  
 5       *vitalization deduction amount with respect to any*  
 6       *building shall be zero unless—*

7               “(A) *such amount was allocated pursuant*  
 8       *to a qualified allocation plan of the commercial*  
 9       *revitalization agency which is approved (in ac-*  
 10       *cordance with rules similar to the rules of section*  
 11       *147(f)(2) (other than subparagraph (B)(ii) there-*  
 12       *of)) by the governmental unit of which such*  
 13       *agency is a part; and*

14              “(B) *such agency notifies the chief executive*  
 15       *officer (or its equivalent) of the local jurisdiction*  
 16       *within which the building is located of such allo-*  
 17       *cation and provides such individual a reasonable*  
 18       *opportunity to comment on the allocation.*

19              “(2) *QUALIFIED ALLOCATION PLAN.*—*For pur-*  
 20       *poses of this subsection, the term ‘qualified allocation*  
 21       *plan’ means any plan—*

22              “(A) *which sets forth selection criteria to be*  
 23       *used to determine priorities of the commercial*  
 24       *revitalization agency which are appropriate to*  
 25       *local conditions;*



1                   “(B) which considers—

2                               “(i) the degree to which a project con-  
3                               tributes to the implementation of a strategic  
4                               plan that is devised for a renewal commu-  
5                               nity through a citizen participation process;

6                               “(ii) the amount of any increase in  
7                               permanent, full-time employment by reason  
8                               of any project; and

9                               “(iii) the active involvement of resi-  
10                              dents and nonprofit groups within the re-  
11                              newal community; and

12                   “(C) which provides a procedure that the  
13                   agency (or its agent) will follow in monitoring  
14                   compliance with this section.

15           “(f) *REGULATIONS.*—For purposes of this section, the  
16   Secretary shall, by regulations, provide for the application  
17   of rules similar to the rules of section 49 and subsections  
18   (a) and (b) of section 50.

19           “(g) *TERMINATION.*—This section shall not apply to  
20   any building placed in service after December 31, 2007.

21   **“SEC. 1400L. INCREASE IN EXPENSING UNDER SECTION 179.**

22           “(a) *GENERAL RULE.*—In the case of a renewal com-  
23   munity business (as defined in section 1400G), for purposes  
24   of section 179—

1           “(1) the limitation under section 179(b)(1) shall  
2       be increased by the lesser of—

3                   “(A) \$35,000; or

4                   “(B) the cost of section 179 property which  
5       is qualified renewal property placed in service  
6       during the taxable year; and

7           “(2) the amount taken into account under sec-  
8       tion 179(b)(2) with respect to any section 179 prop-  
9       erty which is qualified renewal property shall be 50  
10      percent of the cost thereof.

11       “(b) *RECAPTURE.*—Rules similar to the rules under  
12      section 179(d)(10) shall apply with respect to any qualified  
13      renewal property which ceases to be used in a renewal com-  
14      munity by a renewal community business.

15       “(c) *QUALIFIED RENEWAL PROPERTY.*—For purposes  
16      of this section—

17               “(1) *IN GENERAL.*—The term ‘qualified renewal  
18      property’ means any property to which section 168  
19      applies (or would apply but for section 179) if—

20                   “(A) such property was acquired by the tax-  
21      payer by purchase (as defined in section  
22      179(d)(2)) after December 31, 2000, and before  
23      January 1, 2008; and

24                   “(B) such property would be qualified zone  
25      property (as defined in section 1397C) if ref-

1            *erences to renewal communities were substituted*  
 2            *for references to empowerment zones in section*  
 3            *1397C.*

4            “(2) *CERTAIN RULES TO APPLY.*—*The rules of*  
 5            *subsections (a)(2) and (b) of section 1397C shall*  
 6            *apply for purposes of this section.*”.

7    **SEC. 703. EXTENSION OF EXPENSING OF ENVIRONMENTAL**  
 8            **REMEDATION COSTS TO RENEWAL COMMU-**  
 9            **NITIES.**

10          (a) *EXTENSION.*—*Paragraph (2) of section 198(c) (de-*  
 11          *fining targeted area) is amended by redesignating subpara-*  
 12          *graph (C) as subparagraph (D) and by inserting after sub-*  
 13          *paragraph (B) the following new subparagraph:*

14                  “(C) *RENEWAL COMMUNITIES INCLUDED.*—  
 15                  *Except as provided in subparagraph (B), such*  
 16                  *term shall include a renewal community (as de-*  
 17                  *finied in section 1400E) with respect to expendi-*  
 18                  *tures paid or incurred after December 31,*  
 19                  *2000.*”.

20          (b) *EXTENSION OF TERMINATION DATE FOR RENEWAL*  
 21          *COMMUNITIES.*—*Subsection (h) of section 198 is amended*  
 22          *by inserting before the period “(December 31, 2007, in the*  
 23          *case of a renewal community, as defined in section*  
 24          *1400E).*”.

1 **SEC. 704. EXTENSION OF WORK OPPORTUNITY TAX CREDIT**  
2 **FOR RENEWAL COMMUNITIES**

3 (a) *EXTENSION.*—Subsection (c) of section 51 (relating  
4 to termination) is amended by adding at the end the fol-  
5 lowing new paragraph:

6 “(5) *EXTENSION OF CREDIT FOR RENEWAL COM-*  
7 *MUNITIES.*—

8 “(A) *IN GENERAL.*—In the case of an indi-  
9 vidual who begins work for the employer after  
10 the date contained in paragraph (4)(B), for pur-  
11 poses of section 38—

12 “(i) in lieu of applying subsection (a),  
13 the amount of the work opportunity credit  
14 determined under this section for the tax-  
15 able year shall be equal to—

16 “(I) 15 percent of the qualified  
17 first-year wages for such year; and

18 “(II) 30 percent of the qualified  
19 second-year wages for such year;

20 “(ii) subsection (b)(3) shall be applied  
21 by substituting ‘\$10,000’ for ‘\$6,000’;

22 “(iii) paragraph (4)(B) shall be ap-  
23 plied by substituting for the date contained  
24 therein the last day for which the designa-  
25 tion under section 1400E of the renewal

1                   *community referred to in subparagraph*  
 2                   *(B)(i) is in effect; and*

3                   *“(iv) rules similar to the rules of sec-*  
 4                   *tion 51A(b)(5)(C) shall apply.*

5                   *“(B) QUALIFIED FIRST- AND SECOND-YEAR*  
 6                   *WAGES.—For purposes of subparagraph (A)—*

7                   *“(i) IN GENERAL.—The term ‘qualified*  
 8                   *wages’ means, with respect to each 1-year*  
 9                   *period referred to in clause (ii) or (iii), as*  
 10                   *the case may be, the wages paid or incurred*  
 11                   *by the employer during the taxable year to*  
 12                   *any individual but only if—*

13                   *“(I) the employer is engaged in a*  
 14                   *trade or business in a renewal commu-*  
 15                   *nity throughout such 1-year period;*

16                   *“(II) the principal place of abode*  
 17                   *of such individual is in such renewal*  
 18                   *community throughout such 1-year pe-*  
 19                   *riod; and*

20                   *“(III) substantially all of the serv-*  
 21                   *ices which such individual performs for*  
 22                   *the employer during such 1-year period*  
 23                   *are performed in such renewal commu-*  
 24                   *nity.*

1 “(ii) *QUALIFIED FIRST-YEAR WAGES.*—

2 *The term ‘qualified first-year wages’ means,*  
 3 *with respect to any individual, qualified*  
 4 *wages attributable to service rendered dur-*  
 5 *ing the 1-year period beginning with the*  
 6 *day the individual begins work for the em-*  
 7 *ployer.*

8 “(iii) *QUALIFIED SECOND-YEAR*  
 9 *WAGES.*—*The term ‘qualified second-year*  
 10 *wages’ means, with respect to any indi-*  
 11 *vidual, qualified wages attributable to serv-*  
 12 *ice rendered during the 1-year period begin-*  
 13 *ning on the day after the last day of the 1-*  
 14 *year period with respect to such individual*  
 15 *determined under clause (ii).’.*

16 (b) *CONGRUENT TREATMENT OF RENEWAL COMMU-*  
 17 *NITIES AND ENTERPRISE ZONES FOR PURPOSES OF YOUTH*  
 18 *RESIDENCE REQUIREMENTS.*—

19 (1) *HIGH-RISK YOUTH.*—*Subparagraphs (A)(ii)*  
 20 *and (B) of section 51(d)(5) are each amended by*  
 21 *striking “empowerment zone or enterprise commu-*  
 22 *nity” and inserting “empowerment zone, enterprise*  
 23 *community, or renewal community”.*

24 (2) *QUALIFIED SUMMER YOUTH EMPLOYEE.*—  
 25 *Clause (iv) of section 51(d)(7)(A) is amended by*

1       striking “empowerment zone or enterprise commu-  
 2       nity” and inserting “empowerment zone, enterprise  
 3       community, or renewal community”.

4               (3) *HEADINGS*.—Paragraphs (5)(B) and (7)(C)  
 5       of section 51(d) are each amended by inserting “OR  
 6       COMMUNITY” in the heading after “ZONE”.

7               (4) *EFFECTIVE DATE*.—The amendments made  
 8       by this subsection shall apply to individuals who  
 9       begin work for the employer after December 31, 2000.

10   **SEC. 705. CONFORMING AND CLERICAL AMENDMENTS.**

11       (a) *DEDUCTION FOR CONTRIBUTIONS TO FAMILY DE-*  
 12       *VELOPMENT ACCOUNTS ALLOWABLE WHETHER OR NOT*  
 13       *TAXPAYER ITEMIZES*.—Subsection (a) of section 62 (relat-  
 14       ing to adjusted gross income defined) is amended by insert-  
 15       ing after paragraph (19) the following new paragraph:

16               “(20) *FAMILY DEVELOPMENT ACCOUNTS*.—The  
 17       deduction allowed by section 1400H(a)(1).”.

18       (b) *TAX ON EXCESS CONTRIBUTIONS*.—

19               (1) *TAX IMPOSED*.—Subsection (a) of section  
 20       4973 is amended by striking “or” at the end of para-  
 21       graph (3), adding “or” at the end of paragraph (4),  
 22       and inserting after paragraph (4) the following new  
 23       paragraph:

24               “(5) a family development account (within the  
 25       meaning of section 1400H(e)),”.

1           (2) *EXCESS CONTRIBUTIONS.*—Section 4973 is  
 2       *amended by adding at the end the following new sub-*  
 3       *section:*

4       “(g) *FAMILY DEVELOPMENT ACCOUNTS.*—For pur-  
 5       *poses of this section, in the case of family development ac-*  
 6       *counts, the term ‘excess contributions’ means the sum of—*

7           “(1) *the excess (if any) of—*

8               “(A) *the amount contributed for the taxable*  
 9               *year to the accounts (other than a qualified roll-*  
 10              *over, as defined in section 1400H(c)(7), or a con-*  
 11              *tribution under section 1400I), over*

12              “(B) *the amount allowable as a deduction*  
 13              *under section 1400H for such contributions; and*

14           “(2) *the amount determined under this sub-*  
 15       *section for the preceding taxable year reduced by the*  
 16       *sum of—*

17              “(A) *the distributions out of the accounts*  
 18              *for the taxable year which were included in the*  
 19              *gross income of the payee under section*  
 20              *1400H(b)(1);*

21              “(B) *the distributions out of the accounts*  
 22              *for the taxable year to which rules similar to the*  
 23              *rules of section 408(d)(5) apply by reason of sec-*  
 24              *tion 1400H(d)(3); and*



1                   “(C) the excess (if any) of the maximum  
 2                   amount allowable as a deduction under section  
 3                   1400H for the taxable year over the amount con-  
 4                   tributed to the account for the taxable year (other  
 5                   than a contribution under section 1400I).

6 For purposes of this subsection, any contribution which is  
 7 distributed from the family development account in a dis-  
 8 tribution to which rules similar to the rules of section  
 9 408(d)(4) apply by reason of section 1400H(d)(3) shall be  
 10 treated as an amount not contributed.”.

11       (c) TAX ON PROHIBITED TRANSACTIONS.—Section  
 12 4975 is amended—

13                   (1) by adding at the end of subsection (c) the fol-  
 14                   lowing new paragraph:

15                   “(6) SPECIAL RULE FOR FAMILY DEVELOPMENT  
 16                   ACCOUNTS.—An individual for whose benefit a family  
 17                   development account is established and any contrib-  
 18                   utor to such account shall be exempt from the tax im-  
 19                   posed by this section with respect to any transaction  
 20                   concerning such account (which would otherwise be  
 21                   taxable under this section) if, with respect to such  
 22                   transaction, the account ceases to be a family develop-  
 23                   ment account by reason of the application of section  
 24                   1400H(d)(2) to such account.”; and

1           (2) in subsection (e)(1), by striking “or” at the  
 2           end of subparagraph (E), by redesignating subpara-  
 3           graph (F) as subparagraph (G), and by inserting  
 4           after subparagraph (E) the following new subpara-  
 5           graph:

6                       “(F) a family development account de-  
 7                       scribed in section 1400H(e), or”.

8           (d) *INFORMATION RELATING TO CERTAIN TRUSTS AND*  
 9           *ANNUITY PLANS.*—Subsection (c) of section 6047 is  
 10          amended—

11               (1) by inserting “or section 1400H” after “sec-  
 12          tion 219”; and

13               (2) by inserting “, of any family development  
 14          account described in section 1400H(e),”, after “sec-  
 15          tion 408(a)”.

16          (e) *INSPECTION OF APPLICATIONS FOR TAX EXEMP-*  
 17          *TION.*—Clause (i) of section 6104(a)(1)(B) is amended by  
 18          inserting “a family development account described in sec-  
 19          tion 1400H(e),” after “section 408(a),”.

20          (f) *FAILURE TO PROVIDE REPORTS ON FAMILY DE-*  
 21          *VELOPMENT ACCOUNTS.*—Paragraph (2) of section 6693(a)  
 22          is amended by striking “and” at the end of subparagraph  
 23          (C), by striking the period and inserting “, and” at the  
 24          end of subparagraph (D), and by adding at the end the  
 25          following new subparagraph:

1                   “(E) section 1400H(g)(6) (relating to fam-  
2                   ily development accounts).”.

3           (g) *CONFORMING AMENDMENTS REGARDING COMMER-*  
4 *CIAL REVITALIZATION DEDUCTION.*—

5           (1) *Section 172 is amended by redesignating*  
6           *subsection (j) as subsection (k) and by inserting after*  
7           *subsection (i) the following new subsection:*

8           “(j) *NO CARRYBACK OF SECTION 1400K DEDUCTION*  
9 *BEFORE DATE OF ENACTMENT.*—*No portion of the net op-*  
10 *erating loss for any taxable year which is attributable to*  
11 *any commercial revitalization deduction determined under*  
12 *section 1400K may be carried back to a taxable year ending*  
13 *before the date of the enactment of section 1400K.*”.

14           (2) *Subparagraph (B) of section 48(a)(2) is*  
15 *amended by inserting “or commercial revitalization”*  
16 *after “rehabilitation” each place it appears in the*  
17 *text and heading.*

18           (3) *Subparagraph (C) of section 469(i)(3) is*  
19 *amended—*

20                   (A) *by inserting “or section 1400K” after*  
21                   *“section 42”; and*

22                   (B) *by inserting “AND COMMERCIAL REVI-*  
23 *TALIZATION DEDUCTION” after “CREDIT” in the*  
24 *heading.*

1       (h) *CLERICAL AMENDMENTS.*—*The table of sub-*  
 2 *chapters for chapter 1 is amended by adding at the end*  
 3 *the following new item:*

*“Subchapter X. Renewal Communities.”.*

4   **SEC. 706. EVALUATION AND REPORTING REQUIREMENTS.**

5       *Not later than the close of the fourth calendar year*  
 6 *after the year in which the Secretary of Housing and Urban*  
 7 *Development first designates an area as a renewal commu-*  
 8 *nity under section 1400E of the Internal Revenue Code of*  
 9 *1986, and at the close of each fourth calendar year there-*  
 10 *after, such Secretary shall prepare and submit to the Con-*  
 11 *gress a report on the effects of such designations in stimu-*  
 12 *lating the creation of new jobs, particularly for disadvan-*  
 13 *tagged workers and long-term unemployed individuals, and*  
 14 *promoting the revitalization of economically distressed*  
 15 *areas.*

16       ***Subtitle B—Farming Incentive***

17   **SEC. 711. PRODUCTION FLEXIBILITY CONTRACT PAYMENTS.**

18       *Any option to accelerate the receipt of any payment*  
 19 *under a production flexibility contract which is payable*  
 20 *under the Federal Agriculture Improvement and Reform*  
 21 *Act of 1996 (7 U.S.C. 7200 et seq.), as in effect on the date*  
 22 *of the enactment of this Act, shall be disregarded in deter-*  
 23 *mining the taxable year for which such payment is properly*  
 24 *includible in gross income for purposes of the Internal Rev-*  
 25 *enue Code of 1986.*

1    ***Subtitle C—Oil and Gas Incentives***

2    ***SEC. 721. 5-YEAR NET OPERATING LOSS CARRYBACK FOR***  
 3                   ***LOSSES ATTRIBUTABLE TO OPERATING MIN-***  
 4                   ***ERAL INTERESTS OF INDEPENDENT OIL AND***  
 5                   ***GAS PRODUCERS.***

6           (a) *IN GENERAL.*—Paragraph (1) of section 172(b)  
 7    *(relating to years to which loss may be carried) is amended*  
 8    *by adding at the end the following new subparagraph:*

9                   “(H) *LOSSES ON OPERATING MINERAL IN-*  
 10                   *TERESTS OF INDEPENDENT OIL AND GAS PRO-*  
 11                   *DUCERS.*—*In the case of a taxpayer—*

12                           “(i) *which has an eligible oil and gas*  
 13                           *loss (as defined in subsection (j)) for a tax-*  
 14                           *able year, and*

15                           “(ii) *which is not an integrated oil*  
 16                           *company (as defined in section 291(b)(4)),*  
 17                           *such eligible oil and gas loss shall be a net oper-*  
 18                           *ating loss carryback to each of the 5 taxable*  
 19                           *years preceding the taxable year of such loss.”*

20           (b) *ELIGIBLE OIL AND GAS LOSS.*—Section 172 is  
 21    *amended by redesignating subsection (j) as subsection (k)*  
 22    *and by inserting after subsection (i) the following new sub-*  
 23    *section:*

24                   “(j) *ELIGIBLE OIL AND GAS LOSS.*—*For purposes of*  
 25    *this section—*

1           “(1) *IN GENERAL.*—The term ‘eligible oil and  
2           gas loss’ means the lesser of—

3                   “(A) *the amount which would be the net op-*  
4                   *erating loss for the taxable year if only income*  
5                   *and deductions attributable to operating mineral*  
6                   *interests (as defined in section 614(d)) in oil and*  
7                   *gas wells are taken into account, or*

8                   “(B) *the amount of the net operating loss*  
9                   *for such taxable year.*

10           “(2) *COORDINATION WITH SUBSECTION (b)(2).*—  
11           *For purposes of applying subsection (b)(2), an eligible*  
12           *oil and gas loss for any taxable year shall be treated*  
13           *in a manner similar to the manner in which a speci-*  
14           *fied liability loss is treated.*

15           “(3) *ELECTION.*—*Any taxpayer entitled to a 5-*  
16           *year carryback under subsection (b)(1)(H) from any*  
17           *loss year may elect to have the carryback period with*  
18           *respect to such loss year determined without regard to*  
19           *subsection (b)(1)(H).”*

20           “(c) *EFFECTIVE DATE.*—*The amendments made by this*  
21           *section shall apply to net operating losses for taxable years*  
22           *beginning after December 31, 1998.*

1 **SEC. 722. DEDUCTION FOR DELAY RENTAL PAYMENTS.**

2       (a) *IN GENERAL.*—Section 263 (relating to capital ex-  
3 penditures) is amended by adding after subsection (i) the  
4 following new subsection:

5       “(j) *DELAY RENTAL PAYMENTS FOR DOMESTIC OIL*  
6 *AND GAS WELLS.*—

7           “(1) *IN GENERAL.*—Notwithstanding subsection  
8 (a), a taxpayer may elect to treat delay rental pay-  
9 ments incurred in connection with the development of  
10 oil or gas within the United States (as defined in sec-  
11 tion 638) as payments which are not chargeable to  
12 capital account. Any payments so treated shall be al-  
13 lowed as a deduction in the taxable year in which  
14 paid or incurred.

15           “(2) *DELAY RENTAL PAYMENTS.*—For purposes  
16 of paragraph (1), the term ‘delay rental payment’  
17 means an amount paid for the privilege of deferring  
18 development of an oil or gas well.”

19       (b) *CONFORMING AMENDMENT.*—Section 263A(c)(3) is  
20 amended by inserting “263(j),” after “263(i),”.

21       (c) *EFFECTIVE DATE.*—The amendments made by this  
22 section shall apply to amounts paid or incurred in taxable  
23 years beginning after December 31, 1999.

1 **SEC. 723. ELECTION TO EXPENSE GEOLOGICAL AND GEO-**  
2 **PHYSICAL EXPENDITURES.**

3 (a) *IN GENERAL.*—Section 263 (relating to capital ex-  
4 penditures) is amended by adding after subsection (j) the  
5 following new subsection:

6 “(k) *GEOLOGICAL AND GEOPHYSICAL EXPENDITURES*  
7 *FOR DOMESTIC OIL AND GAS WELLS.*—Notwithstanding  
8 subsection (a), a taxpayer may elect to treat geological and  
9 geophysical expenses incurred in connection with the explo-  
10 ration for, or development of, oil or gas within the United  
11 States (as defined in section 638) as expenses which are  
12 not chargeable to capital account. Any expenses so treated  
13 shall be allowed as a deduction in the taxable year in which  
14 paid or incurred.”

15 (b) *CONFORMING AMENDMENT.*—Section 263A(c)(3) is  
16 amended by inserting “263(k),” after “263(j),”.

17 (c) *EFFECTIVE DATE.*—The amendments made by this  
18 section shall apply to costs paid or incurred in taxable  
19 years beginning after December 31, 1999.

20 **SEC. 724. TEMPORARY SUSPENSION OF LIMITATION BASED**  
21 **ON 65 PERCENT OF TAXABLE INCOME.**

22 (a) *IN GENERAL.*—Subsection (d) of section 613A (re-  
23 lating to limitation on percentage depletion in case of oil  
24 and gas wells) is amended by adding at the end the fol-  
25 lowing new paragraph:



1           “(6) *TEMPORARY SUSPENSION OF TAXABLE IN-*  
 2           *COME LIMIT.*—Paragraph (1) shall not apply to tax-  
 3           *able years beginning after December 31, 1998, and be-*  
 4           *fore January 1, 2005, including with respect to*  
 5           *amounts carried under the second sentence of para-*  
 6           *graph (1) to such taxable years.”*

7           (b) *EFFECTIVE DATE.*—The amendment made by this  
 8           section shall apply to taxable years beginning after Decem-  
 9           ber 31, 1998.

10   **SEC. 725. DETERMINATION OF SMALL REFINER EXCEPTION**  
 11                           **TO OIL DEPLETION DEDUCTION.**

12           (a) *IN GENERAL.*—Paragraph (4) of section 613A(d)  
 13           *(relating to certain refiners excluded) is amended to read*  
 14           *as follows:*

15           “(4) *CERTAIN REFINERS EXCLUDED.*—If the tax-  
 16           *payer or a related person engages in the refining of*  
 17           *crude oil, subsection (c) shall not apply to the tax-*  
 18           *payer for a taxable year if the average daily refinery*  
 19           *runs of the taxpayer and the related person for the*  
 20           *taxable year exceed 50,000 barrels. For purposes of*  
 21           *this paragraph, the average daily refinery runs for*  
 22           *any taxable year shall be determined by dividing the*  
 23           *aggregate refinery runs for the taxable year by the*  
 24           *number of days in the taxable year.”*

1       (b) *EFFECTIVE DATE.*—*The amendment made by this*  
 2 *section shall apply to taxable years beginning after Decem-*  
 3 *ber 31, 1999.*

4       ***Subtitle D—Timber Incentives***

5       ***SEC. 731. TEMPORARY SUSPENSION OF MAXIMUM AMOUNT***  
 6               ***OF AMORTIZABLE REFORESTATION EXPENDI-***  
 7               ***TURES.***

8       (a) *INCREASE IN DOLLAR LIMITATION.*—*Paragraph*  
 9 *(1) of section 194(b) (relating to amortization of reforest-*  
 10 *ation expenditures) is amended by striking “\$10,000*  
 11 *(\$5,000” and inserting “\$25,000 (\$12,500”.*

12       (b) *TEMPORARY SUSPENSION OF INCREASED DOLLAR*  
 13 *LIMITATION.*—*Subsection (b) of section 194(b) (relating to*  
 14 *amortization of reforestation expenditures) is amended by*  
 15 *adding at the end the following new paragraph:*

16               “(5) *SUSPENSION OF DOLLAR LIMITATION.*—  
 17       *Paragraph (1) shall not apply to taxable years begin-*  
 18       *ning after December 31, 1999, and before January 1,*  
 19       *2004.*

20       (c) *CONFORMING AMENDMENT.*—*Paragraph (1) of sec-*  
 21 *tion 48(b) is amended by striking “section 194(b)(1)” and*  
 22 *inserting “section 194(b)(1) and without regard to section*  
 23 *194(b)(5)”.*”.

1       (d) *EFFECTIVE DATE.*—*The amendments made by this*  
2 *section shall apply to taxable years beginning after Decem-*  
3 *ber 31, 1998.*

4 **SEC. 732. CAPITAL GAIN TREATMENT UNDER SECTION**  
5 **631(b) TO APPLY TO OUTRIGHT SALES BY**  
6 **LAND OWNER.**

7       (a) *IN GENERAL.*—*Subsection (b) of section 631 (relat-*  
8 *ing to disposal of timber with a retained economic interest)*  
9 *is amended—*

10           (1) *by inserting “AND OUTRIGHT SALES OF TIM-*  
11 *BER” after ECONOMIC INTEREST” in the subsection*  
12 *heading, and*

13           (2) *by adding before the last sentence the fol-*  
14 *lowing new sentence: “The requirement in the first*  
15 *sentence of this subsection to retain an economic in-*  
16 *terest in timber shall not apply to an outright sale of*  
17 *such timber by the owner thereof if such owner owned*  
18 *the land (at the time of such sale) from which the*  
19 *timber is cut.”*

20       (b) *EFFECTIVE DATE.*—*The amendment made by this*  
21 *section shall apply to sales after the date of the enactment*  
22 *of this Act.*

1 ***Subtitle E—Steel Industry Incentive***

2 ***SEC. 741. MINIMUM TAX RELIEF FOR STEEL INDUSTRY.***

3       (a) *IN GENERAL.*—Subsection (c) of section 53 (as  
4 amended by section 302) is amended by adding at the end  
5 the following new paragraph:

6               “(4) *STEEL COMPANIES.*—

7                       “(A) *IN GENERAL.*—In the case of a cor-  
8 poration engaged in the trade or business of  
9 manufacturing steel in the United States for sale  
10 to customers, in lieu of applying paragraph (2),  
11 the limitation under paragraph (1) for any tax-  
12 able year beginning after December 31, 1998,  
13 shall be increased (subject to the rule of the last  
14 sentence of paragraph (2)) by 90 percent of the  
15 tentative minimum tax.

16                       “(B) *LIMITATION.*—The increase in the  
17 credit allowed by this section by reason of this  
18 paragraph for any taxable year shall not exceed  
19 the increase in the credit which would be so al-  
20 lowed if the trade or business of such corporation  
21 of manufacturing steel in the United States for  
22 sale to customers were a separate taxpayer.

23                       “(C) *REGULATIONS.*—The Secretary shall  
24 prescribe regulations to prevent the abuse of the  
25 purposes of this paragraph, including regula-

1           *tions to prevent the benefits of this paragraph*  
 2           *from becoming available to any other corpora-*  
 3           *tion through any reorganization or other acqui-*  
 4           *sition.”*

5           ***(b) EFFECTIVE DATE.***—*The amendment made by this*  
 6           *section shall apply to taxable years beginning after Decem-*  
 7           *ber 31, 1998.*

8           ***TITLE VIII—RELIEF FOR SMALL***  
 9           ***BUSINESSES***

10       ***SEC. 801. DEDUCTION FOR 100 PERCENT OF HEALTH INSUR-***  
 11               ***ANCE COSTS OF SELF-EMPLOYED INDIVID-***  
 12               ***UALS.***

13           ***(a) IN GENERAL.***—*Paragraph (1) of section 162(l) is*  
 14           *amended to read as follows:*

15               ***“(1) ALLOWANCE OF DEDUCTION.***—*In the case of*  
 16               *an individual who is an employee within the mean-*  
 17               *ing of section 401(c)(1), there shall be allowed as a*  
 18               *deduction under this section an amount equal to 100*  
 19               *percent of the amount paid during the taxable year*  
 20               *for insurance which constitutes medical care for the*  
 21               *taxpayer, his spouse, and dependents.”*

22           ***(b) EFFECTIVE DATE.***—*The amendment made by this*  
 23           *section shall apply to taxable years beginning after Decem-*  
 24           *ber 31, 1999.*

1 **SEC. 802. INCREASE IN EXPENSE TREATMENT FOR SMALL**  
2 **BUSINESSES.**

3 (a) *IN GENERAL.*—Paragraph (1) of section 179(b)  
4 (relating to dollar limitation) is amended to read as follows:

5 “(1) *DOLLAR LIMITATION.*—The aggregate cost  
6 which may be taken into account under subsection (a)  
7 for any taxable year shall not exceed \$30,000.”.

8 (b) *EFFECTIVE DATE.*—The amendment made by this  
9 section shall apply to taxable years beginning after Decem-  
10 ber 31, 1999.

11 **SEC. 803. REPEAL OF FEDERAL UNEMPLOYMENT SURTAX.**

12 (a) *IN GENERAL.*—Section 3301 (relating to rate of  
13 Federal unemployment tax) is amended—

14 (1) by striking “2007” and inserting “2004”,  
15 and

16 (2) by striking “2008” and inserting “2005”.

17 (b) *EFFECTIVE DATE.*—The amendment made by this  
18 section shall apply to calendar years beginning after the  
19 date of the enactment of this Act.

20 **SEC. 804. RESTORATION OF 80 PERCENT DEDUCTION FOR**  
21 **MEAL EXPENSES.**

22 (a) *IN GENERAL.*—Paragraph (1) of section 274(n)  
23 (relating to only 50 percent of meal and entertainment ex-  
24 penses allowed as deduction) is amended by striking “50  
25 percent” in the text and inserting “the allowable percent-  
26 age”.

1       (b) *ALLOWABLE PERCENTAGES.*—Subsection (n) of  
 2       section 274 is amended by redesignating paragraphs (2)  
 3       and (3) as paragraphs (3) and (4), respectively, and by  
 4       inserting after paragraph (2) the following new paragraph:

5               “(2) *ALLOWABLE PERCENTAGE.*—For purposes of  
 6       paragraph (1), the allowable percentage is—

7                       “(A) in the case of amounts for items de-  
 8       scribed in paragraph (1)(B), 50 percent, and

9                       “(B) in the case of expenses for food or bev-  
 10       erages, the percentage determined in accordance  
 11       with the following table:

<b>“For taxable years beginning in calendar year—</b>	<b>The allowable percentage is—</b>
2000 through 2004 .....	50
2005 .....	55
2006 .....	60
2007 .....	65
2008 .....	70
2009 .....	75
2010 and thereafter .....	80.”

12       (b) *CONFORMING AMENDMENTS.*—

13               (1) The heading for subsection (n) of section 274  
 14       is amended by striking “50 PERCENT” and inserting  
 15       “LIMITED PERCENTAGES”.

16               (2) Subparagraph (A) of section 274(n)(4), as  
 17       redesignated by subsection (a), is amended by striking  
 18       “50 percent” and inserting “the allowable percent-  
 19       age”.

1       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall apply to taxable years beginning after Decem-*  
 3 *ber 31, 1999.*

4       ***TITLE IX—INTERNATIONAL TAX***  
 5                                   ***RELIEF***

6       ***SEC. 901. INTEREST ALLOCATION RULES.***

7       (a) *ELECTION TO ALLOCATE INTEREST ON A WORLD-*  
 8 *WIDE BASIS.*—*Subsection (e) of section 864 (relating to*  
 9 *rules for allocating interest, etc.) is amended by redesign-*  
 10 *ating paragraphs (6) and (7) as paragraphs (7) and (8),*  
 11 *respectively, and by inserting after paragraph (5) the fol-*  
 12 *lowing new paragraph:*

13                   “(6) *ELECTION TO ALLOCATE INTEREST ON A*  
 14       *WORLDWIDE BASIS.*—

15                   “(A) *IN GENERAL.*—*Except as provided in*  
 16       *this paragraph, this subsection shall be applied*  
 17       *by treating each worldwide affiliated group for*  
 18       *which an election under this paragraph is in ef-*  
 19       *fect as an affiliated group solely for purposes of*  
 20       *allocating and apportioning interest expense of*  
 21       *domestic corporations which are members of such*  
 22       *group.*

23                   “(B) *WORLDWIDE AFFILIATED GROUP.*—  
 24       *For purposes of this paragraph, the term ‘world-*



1        *wide affiliated group’ means the group of cor-*  
 2        *porations which consists of—*

3                *“(i) all corporations in an affiliated*  
 4                *group (as defined in paragraph (5)), and*

5                *“(ii) all foreign corporations (other*  
 6                *than a FSC, as defined in section 922(a))*  
 7                *with respect to which corporations described*  
 8                *in clause (i) own stock meeting the owner-*  
 9                *ship requirements of section 957(a) (without*  
 10               *regard to stock considered as owned under*  
 11               *section 958(b)).*

12               *“(C) ALLOCATION.—*

13               *“(i) IN GENERAL.—For purposes of*  
 14               *paragraph (1), only the applicable percent-*  
 15               *age of the interest expense and assets of a*  
 16               *foreign corporation described in subpara-*  
 17               *graph (B)(ii) shall be taken into account.*

18               *“(ii) APPLICABLE PERCENTAGE.—For*  
 19               *purposes of this paragraph, the term ‘appli-*  
 20               *cable percentage’ means, with respect to any*  
 21               *foreign corporation, the percentage equal to*  
 22               *the ratio which the value of the stock in*  
 23               *such corporation taken into account under*  
 24               *subparagraph (B)(ii) bears to the aggregate*  
 25               *value of all stock in such corporation.*

1           “(D) *TREATMENT OF FOREIGN INTEREST*  
2           *EXPENSE.*—*Interest expense of domestic corpora-*  
3           *tions which are members of an electing world-*  
4           *wide affiliated group which is allocated to for-*  
5           *ign source income under this subsection shall be*  
6           *reduced (but not below zero) by the applicable*  
7           *percentage of the interest expense incurred by*  
8           *any foreign corporation in the electing world-*  
9           *wide affiliated group to the extent such interest*  
10          *expense of such foreign corporation would have*  
11          *been allocated and apportioned to foreign source*  
12          *income of such foreign corporation if this sub-*  
13          *section were applied to a group consisting of all*  
14          *the foreign corporations in such affiliated group.*

15          “(E) *ELECTION.*—*An election under this*  
16          *paragraph with respect to any worldwide affili-*  
17          *ated group may be made only by the common*  
18          *parent of the affiliated group referred to in sub-*  
19          *paragraph (B)(i) and may be made only for the*  
20          *first taxable year beginning after December 31,*  
21          *2001, in which a worldwide affiliated group ex-*  
22          *ists which includes such affiliated group and at*  
23          *least 1 corporation described in subparagraph*  
24          *(B)(ii). Such an election, once made, shall apply*  
25          *to such parent and all other corporations which*

1           *are included in such worldwide affiliated group*  
 2           *for such taxable year and all subsequent years*  
 3           *unless revoked with the consent of the Sec-*  
 4           *retary.”.*

5           ***(b) ELECTION TO ALLOCATE INTEREST WITHIN FI-***  
 6 ***NANCIAL INSTITUTION GROUPS AND SUBSIDIARY***  
 7 ***GROUPS.—Section 864 is amended by redesignating sub-***  
 8 ***section (f) as subsection (g) and by inserting after sub-***  
 9 ***section (e) the following new subsection:***

10           ***“(f) ELECTION TO APPLY SUBSECTION (e) ON BASIS***  
 11 ***OF FINANCIAL INSTITUTION GROUP AND SUBSIDIARY***  
 12 ***GROUPS.—***

13           ***“(1) IN GENERAL.—Subsection (e) shall be***  
 14 ***applied—***

15                   ***“(A) as if the electing financial institution***  
 16 ***group were a separate affiliated group, and***

17                   ***“(B) for purposes of allocating interest ex-***  
 18 ***pense with respect to qualified indebtedness of***  
 19 ***members of an electing subsidiary group, as if***  
 20 ***each electing subsidiary group were a separate***  
 21 ***affiliated group.***

22           ***Subsection (e) shall apply to any such electing group***  
 23 ***in the same manner as subsection (e) applies to the***  
 24 ***pre-election affiliated group of which such electing***  
 25 ***group is a part.***

1           “(2) *ELECTING FINANCIAL INSTITUTION*  
2 *GROUP.—For purposes of this subsection—*

3           “(A) *IN GENERAL.—The term ‘electing fi-*  
4 *ancial institution group’ means any group of*  
5 *corporations if—*

6           “(i) *such group consists only of all of*  
7 *the financial corporations in the pre-elec-*  
8 *tion affiliated group, and*

9           “(ii) *an election under this paragraph*  
10 *is in effect for such group of corporations.*

11          “(B) *FINANCIAL CORPORATION.—The term*  
12 *‘financial corporation’ means any corporation if*  
13 *at least 80 percent of its gross income is income*  
14 *described in section 904(d)(2)(C)(ii) and the reg-*  
15 *ulations thereunder. To the extent provided in*  
16 *regulations prescribed by the Secretary, such*  
17 *term includes a bank holding company (within*  
18 *the meaning of section 2(a) of the Bank Holding*  
19 *Company Act of 1956).*

20          “(C) *EFFECT OF CERTAIN TRANSACTIONS.—*  
21 *Rules similar to the rules of paragraph (3)(D)*  
22 *shall apply to transactions between any member*  
23 *of the electing financial institution group and*  
24 *any member of the pre-election affiliated group*

(other than a member of the electing financial institution group).

“(D) *ELECTION*.—An election under this paragraph with respect to any financial institution group may be made only by the common parent of the pre-election affiliated group. Such an election, once made, shall apply only to the taxable year for which made.

“(3) *ELECTING SUBSIDIARY GROUPS*.—

“(A) *IN GENERAL*.—The term ‘electing subsidiary group’ means any group of corporations if—

“(i) such group consists only of corporations in the pre-election affiliated group,

“(ii) such group includes—

“(I) a domestic corporation (which is not the common parent of the pre-election affiliated group or a member of an electing financial institution group) which incurs interest expense with respect to qualified indebtedness, and

“(II) every other corporation (other than a member of an electing fi-

1           nancial institution group) which is in  
 2           the pre-election affiliated group and  
 3           which would be a member of an affili-  
 4           ated group having such domestic cor-  
 5           poration as the common parent, and  
 6           “(iii) an election under this paragraph  
 7           is in effect for such group.

8           “(B) *EQUALIZATION RULE.*—All interest ex-  
 9           pense of a domestic corporation which is a mem-  
 10          ber of a pre-election affiliated group (other than  
 11          subsidiary group interest expense) shall be treat-  
 12          ed as allocated to foreign source income to the ex-  
 13          tent such expense does not exceed the excess (if  
 14          any) of—

15           “(i) the interest expense of the pre-elec-  
 16           tion affiliated group (including subsidiary  
 17           group interest expense) which would (but  
 18           for any election under this paragraph) be  
 19           allocated to foreign source income, over

20           “(ii) the subsidiary group interest ex-  
 21           pense allocated to foreign source income.

22          For purposes of the preceding sentence, the sub-  
 23          sidiary group interest expense is the interest ex-  
 24          pense to which subsection (e) applies separately  
 25          by reason of paragraph (1)(B).

1           “(C) *QUALIFIED INDEBTEDNESS.*—For pur-  
2           poses of this subsection, the term ‘qualified in-  
3           debtedness’ means any indebtedness of a domestic  
4           corporation—

5                     “(i) *which is held by an unrelated per-*  
6                     *son, and*

7                     “(ii) *which is not guaranteed (or other-*  
8                     *wise supported) by any corporation which*  
9                     *is a member of the pre-election affiliated*  
10                    *group other than a corporation which is a*  
11                    *member of the electing subsidiary group.*

12           *For purposes of this subparagraph, the term ‘un-*  
13           *related person’ means any person not bearing a*  
14           *relationship specified in section 267(b) or*  
15           *707(b)(1) to the corporation.*

16           “(D) *EFFECT OF CERTAIN TRANSACTIONS*  
17           *ON QUALIFIED INDEBTEDNESS.*—*In the case of a*  
18           *corporation which is a member of an electing*  
19           *subsidiary group, to the extent that such*  
20           *corporation—*

21                     “(i) *distributes dividends or makes*  
22                     *other distributions with respect to its stock*  
23                     *after the date of the enactment of this para-*  
24                     *graph to any member of the pre-election af-*  
25                     *iliated group (other than to a member of*

1           *the electing subsidiary group) in excess of*  
2           *the greater of—*

3                     “(I) *its average annual dividend*  
4                     *(expressed as a percentage of current*  
5                     *earnings and profits) during the 5-tax-*  
6                     *able-year period ending with the tax-*  
7                     *able year preceding the taxable year, or*

8                     “(II) *25 percent of its average an-*  
9                     *nual earnings and profits for such 5*  
10                    *taxable year period, or*

11                   “(ii) *deals with any person in any*  
12                   *manner not clearly reflecting the income of*  
13                   *the corporation (as determined under prin-*  
14                   *ciples similar to the principles of section*  
15                    *482),*

16           *an amount of qualified indebtedness equal to the*  
17           *excess distribution or the understatement or over-*  
18           *statement of income, as the case may be, shall be*  
19           *recharacterized (for the taxable year and subse-*  
20           *quent taxable years) for purposes of this sub-*  
21           *section as indebtedness which is not qualified in-*  
22           *debtedness. If a corporation has not been in ex-*  
23           *istence for 5 taxable years, this subparagraph*  
24           *shall be applied with respect to the period it was*  
25           *in existence.*



1           “(E) *ELECTION.*—An election under this  
 2           paragraph with respect to any electing sub-  
 3           sidiary group may be made only by the common  
 4           parent of the pre-election affiliated group. Such  
 5           an election, once made, shall apply only to the  
 6           taxable year for which made. No election may be  
 7           made under this paragraph if the effect of the  
 8           election would be to have the same member of the  
 9           pre-election affiliated group included in more  
 10          than 1 electing subsidiary group.

11          “(4) *PRE-ELECTION AFFILIATED GROUP.*—For  
 12          purposes of this subsection, the term ‘pre-election af-  
 13          filiated group’ means, with respect to a corporation,  
 14          the affiliated group or electing worldwide affiliated  
 15          group of which such corporation would (but for an  
 16          election under this subsection) be a member for pur-  
 17          poses of applying subsection (e).

18          “(5) *REGULATIONS.*—The Secretary shall pre-  
 19          scribe such regulations as may be appropriate to  
 20          carry out this subsection and subsection (e), including  
 21          regulations—

22               “(A) providing for the direct allocation of  
 23               interest expense in other circumstances where  
 24               such allocation would be appropriate to carry  
 25               out the purposes of this subsection,

1           “(B) preventing assets or interest expense  
 2           from being taken into account more than once,  
 3           and

4           “(C) dealing with changes in members of  
 5           any group (through acquisitions or otherwise)  
 6           treated under this subsection as an affiliated  
 7           group for purposes of subsection (e).”

8           (c) *INSURANCE COMPANIES INCLUDED IN AFFILIATED*  
 9 *GROUPS.*—Paragraph (5) of section 864(e) is amended to  
 10 read as follows:

11           “(5) *AFFILIATED GROUP.*—The term ‘affiliated  
 12           group’ has the meaning given such term by section  
 13           1504 (determined without regard to paragraphs (2)  
 14           and (4) of section 1504(b)).”.

15           (d) *EFFECTIVE DATE.*—The amendments made by this  
 16 section shall apply to taxable years beginning after Decem-  
 17 ber 31, 2001.

18 **SEC. 902. LOOK-THRU RULES TO APPLY TO DIVIDENDS**  
 19 **FROM NONCONTROLLED SECTION 902 COR-**  
 20 **PORATIONS.**

21           (a) *IN GENERAL.*—Section 904(d)(4) (relating to ap-  
 22 plication of look-thru rules to dividends from noncontrolled  
 23 section 902 corporations) is amended to read as follows:

24           “(4) *LOOK-THRU APPLIES TO DIVIDENDS FROM*  
 25 *NONCONTROLLED SECTION 902 CORPORATIONS.*—

1           “(A) *IN GENERAL.*—For purposes of this  
 2           subsection, any dividend from a noncontrolled  
 3           section 902 corporation with respect to the tax-  
 4           payer shall be treated as income in a separate  
 5           category in proportion to the ratio of—

6                   “(i) the portion of earnings and profits  
 7                   attributable to income in such category, to

8                   “(ii) the total amount of earnings and  
 9                   profits.

10           “(B) *SPECIAL RULES.*—For purposes of this  
 11           paragraph—

12                   “(i) *IN GENERAL.*—Rules similar to  
 13                   the rules of paragraph (3)(F) shall apply;  
 14                   except that the term ‘separate category’  
 15                   shall include the category of income de-  
 16                   scribed in paragraph (1)(I).

17                   “(ii) *EARNINGS AND PROFITS.*—

18                           “(I) *IN GENERAL.*—The rules of  
 19                           section 316 shall apply.

20                           “(II) *REGULATIONS.*—The Sec-  
 21                           retary may prescribe regulations re-  
 22                           garding the treatment of distributions  
 23                           out of earnings and profits for periods  
 24                           before the taxpayer’s acquisition of the  
 25                           stock to which the distributions relate.

1                   “(iii) *DIVIDENDS NOT ALLOCABLE TO*  
 2                   *SEPARATE CATEGORY.*—*The portion of any*  
 3                   *dividend from a noncontrolled section 902*  
 4                   *corporation which is not treated as income*  
 5                   *in a separate category under subparagraph*  
 6                   *(A) shall be treated as a dividend to which*  
 7                   *subparagraph (A) does not apply.*

8                   “(iv) *LOOK-THRU WITH RESPECT TO*  
 9                   *CARRYFORWARDS OF CREDIT.*—*Rules simi-*  
 10                   *lar to subparagraph (A) also shall apply to*  
 11                   *any carryforward under subsection (c) from*  
 12                   *a taxable year beginning before January 1,*  
 13                   *2002, of tax allocable to a dividend from a*  
 14                   *noncontrolled section 902 corporation with*  
 15                   *respect to the taxpayer.”*

16           (b) *CONFORMING AMENDMENTS.*—

17                   (1) *Subparagraph (E) of section 904(d)(1), as in*  
 18                   *effect both before and after the amendments made by*  
 19                   *section 1105 of the Taxpayer Relief Act of 1997, is*  
 20                   *hereby repealed.*

21                   (2) *Section 904(d)(2)(C)(iii), as so in effect, is*  
 22                   *amended by striking subclause (II) and by redesign-*  
 23                   *ating subclause (III) as subclause (II).*

7 (5) Section 904(d)(3)(F) is amended by striking  
8 “(D), or (E)” and inserting “or (D)”.

11 (c) *EFFECTIVE DATE.*—*The amendments made by this*  
12 *section shall apply to taxable years beginning after Decem-*  
13 *ber 31, 2001.*

(a) IN GENERAL.—Section 954(g)(1) (defining foreign base company oil related income) is amended by striking “or” at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting “, or”, and by inserting after subparagraph (B) the following new subparagraph:

(b) *EFFECTIVE DATE.*—The amendment made by this section shall apply to taxable years of controlled foreign cor-

1 porations beginning after December 31, 2001, and taxable  
 2 years of United States shareholders with or within which  
 3 such taxable years of controlled foreign corporations end.

4 **SEC. 904. SUBPART F TREATMENT OF INCOME FROM TRANS-**  
 5 **MISSION OF HIGH VOLTAGE ELECTRICITY.**

6 (a) *IN GENERAL.*—Paragraph (2) of section 954(e) (re-  
 7 lating to foreign base company services income) is amended  
 8 by striking “or” at the end of subparagraph (A), by striking  
 9 the period at the end of subparagraph (B) and inserting  
 10 “, or”, and by inserting after subparagraph (B) the fol-  
 11 lowing new subparagraph:

12 “(C) the transmission of high voltage elec-  
 13 tricity.”

14 (b) *EFFECTIVE DATE.*—The amendment made by this  
 15 section shall apply to taxable years of controlled foreign cor-  
 16 porations beginning after December 31, 2001, and taxable  
 17 years of United States shareholders with or within which  
 18 such taxable years of controlled foreign corporations end.

19 **SEC. 905. RECHARACTERIZATION OF OVERALL DOMESTIC**  
 20 **LOSS.**

21 (a) *GENERAL RULE.*—Section 904 is amended by re-  
 22 designating subsections (g), (h), (i), (j), and (k) as sub-  
 23 sections (h), (i), (j), (k), and (l), respectively, and by insert-  
 24 ing after subsection (f) the following new subsection:

1       “(g) *RECHARACTERIZATION OF OVERALL DOMESTIC*  
2 *LOSS.*—

3               “(1) *GENERAL RULE.*—*For purposes of this sub-*  
4 *part and section 936, in the case of any taxpayer who*  
5 *sustains an overall domestic loss for any taxable year*  
6 *beginning after December 31, 2004, that portion of*  
7 *the taxpayer’s taxable income from sources within the*  
8 *United States for each succeeding taxable year which*  
9 *is equal to the lesser of—*

10               “(A) *the amount of such loss (to the extent*  
11 *not used under this paragraph in prior taxable*  
12 *years), or*

13               “(B) *50 percent of the taxpayer’s taxable*  
14 *income from sources within the United States for*  
15 *such succeeding taxable year,*  
16 *shall be treated as income from sources without the*  
17 *United States (and not as income from sources within*  
18 *the United States).*

19               “(2) *OVERALL DOMESTIC LOSS DEFINED.*—*For*  
20 *purposes of this subsection—*

21               “(A) *IN GENERAL.*—*The term ‘overall do-*  
22 *mestic loss’ means any domestic loss to the extent*  
23 *such loss offsets taxable income from sources*  
24 *without the United States for the taxable year or*  
25 *for any preceding taxable year by reason of a*

1       *carryback. For purposes of the preceding sen-*  
2       *tence, the term ‘domestic loss’ means the amount*  
3       *by which the gross income for the taxable year*  
4       *from sources within the United States is exceeded*  
5       *by the sum of the deductions properly appor-*  
6       *tioned or allocated thereto (determined without*  
7       *regard to any carryback from a subsequent tax-*  
8       *able year).*

9               “(B) *TAXPAYER MUST HAVE ELECTED FOR-*  
10       *EIGN TAX CREDIT FOR YEAR OF LOSS.—The term*  
11       *‘overall domestic loss’ shall not include any loss*  
12       *for any taxable year unless the taxpayer chose*  
13       *the benefits of this subpart for such taxable year.*

14               “(3) *CHARACTERIZATION OF SUBSEQUENT IN-*  
15       *COME.—*

16               “(A) *IN GENERAL.—Any income from*  
17       *sources within the United States that is treated*  
18       *as income from sources without the United*  
19       *States under paragraph (1) shall be allocated*  
20       *among and increase the income categories in*  
21       *proportion to the loss from sources within the*  
22       *United States previously allocated to those in-*  
23       *come categories.*

24               “(B) *INCOME CATEGORY.—For purposes of*  
25       *this paragraph, the term ‘income category’ has*



1           *the meaning given such term by subsection*  
 2           *(f)(5)(E)(i).*

3           “(4) *COORDINATION WITH SUBSECTION (f).*—*The*  
 4           *Secretary shall prescribe such regulations as may be*  
 5           *necessary to coordinate the provisions of this sub-*  
 6           *section with the provisions of subsection (f).*”

7           ***(b) CONFORMING AMENDMENTS.***—

8           (1) *Section 535(d)(2) is amended by striking*  
 9           *“section 904(g)(6)” and inserting “section 904(h)(6)”.*

10          (2) *Subparagraph (A) of section 936(a)(2) is*  
 11          *amended by striking “section 904(f)” and inserting*  
 12          *“subsections (f) and (g) of section 904”.*

13          (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 14          *section shall apply to losses for taxable years beginning*  
 15          *after December 31, 2004.*

16          ***SEC. 906. TREATMENT OF MILITARY PROPERTY OF FOREIGN***  
 17                               ***SALES CORPORATIONS.***

18          (a) *IN GENERAL.*—*Section 923(a) (defining exempt*  
 19          *foreign trade income) is amended by striking paragraph (5)*  
 20          *and by redesignating paragraph (6) as paragraph (5).*

21          (b) *EFFECTIVE DATE.*—*The amendment made by this*  
 22          *section shall apply to taxable years beginning after Decem-*  
 23          *ber 31, 2001.*

1 **SEC. 907. TREATMENT OF CERTAIN DIVIDENDS OF REGU-**  
 2 **LATED INVESTMENT COMPANIES.**

3 *(a) TREATMENT OF CERTAIN DIVIDENDS.—*

4 *(1) NONRESIDENT ALIEN INDIVIDUALS.—Section*  
 5 *871 (relating to tax on nonresident alien individuals)*  
 6 *is amended by redesignating subsection (k) as sub-*  
 7 *section (l) and by inserting after subsection (j) the fol-*  
 8 *lowing new subsection:*

9 *“(k) EXEMPTION FOR CERTAIN DIVIDENDS OF REGU-*  
 10 *LATED INVESTMENT COMPANIES.—*

11 *“(1) INTEREST-RELATED DIVIDENDS.—*

12 *“(A) IN GENERAL.—Except as provided in*  
 13 *subparagraph (B), no tax shall be imposed under*  
 14 *paragraph (1)(A) of subsection (a) on any inter-*  
 15 *est-related dividend received from a regulated in-*  
 16 *vestment company.*

17 *“(B) EXCEPTIONS.—Subparagraph (A)*  
 18 *shall not apply—*

19 *“(i) to any interest-related dividend re-*  
 20 *ceived from a regulated investment com-*  
 21 *pany by a person to the extent such divi-*  
 22 *dend is attributable to interest (other than*  
 23 *interest described in clause (i), (iii), or the*  
 24 *last sentence of subparagraph (E)) received*  
 25 *by such company on indebtedness issued by*  
 26 *such person or by any corporation or part-*

nership with respect to which such person is  
a 10-percent shareholder,

“(ii) to any interest-related dividend  
with respect to stock of a regulated invest-  
ment company unless the person who would  
otherwise be required to deduct and with-  
hold tax from such dividend under chapter  
3 receives a statement (which meets require-  
ments similar to the requirements of sub-  
section (h)(5)) that the beneficial owner of  
such stock is not a United States person,  
and

“(iii) to any interest-related dividend  
paid to any person within a foreign coun-  
try (or any interest-related dividend pay-  
ment addressed to, or for the account of,  
persons within such foreign country) during  
any period described in subsection (h)(6)  
with respect to such country.

Clause (iii) shall not apply to any dividend with  
respect to any stock the holding period of which  
begins on or before the date of the publication of  
the Secretary’s determination under subsection  
(h)(6).

1           “(C) *INTEREST-RELATED DIVIDEND.*—For  
2           purposes of this paragraph, an interest-related  
3           dividend is any dividend (or part thereof) which  
4           is designated by the regulated investment com-  
5           pany as an interest-related dividend in a writ-  
6           ten notice mailed to its shareholders not later  
7           than 60 days after the close of its taxable year.  
8           If the aggregate amount so designated with re-  
9           spect to a taxable year of the company (includ-  
10          ing amounts so designated with respect to divi-  
11          dends paid after the close of the taxable year de-  
12          scribed in section 855) is greater than the quali-  
13          fied net interest income of the company for such  
14          taxable year, the portion of each distribution  
15          which shall be an interest-related dividend shall  
16          be only that portion of the amounts so designated  
17          which such qualified net interest income bears to  
18          the aggregate amount so designated.

19          “(D) *QUALIFIED NET INTEREST INCOME.*—  
20          For purposes of subparagraph (C), the term  
21          ‘qualified net interest income’ means the quali-  
22          fied interest income of the regulated investment  
23          company reduced by the deductions properly al-  
24          locable to such income.

1           “(E) *QUALIFIED INTEREST INCOME.*—For  
2           purposes of subparagraph (D), the term ‘quali-  
3           fied interest income’ means the sum of the fol-  
4           lowing amounts derived by the regulated invest-  
5           ment company from sources within the United  
6           States:

7                   “(i) Any amount includible in gross  
8                   income as original issue discount (within  
9                   the meaning of section 1273) on an obliga-  
10                  tion payable 183 days or less from the date  
11                  of original issue (without regard to the pe-  
12                  riod held by the company).

13                  “(ii) Any interest includible in gross  
14                  income (including amounts recognized as  
15                  ordinary income in respect of original issue  
16                  discount or market discount or acquisition  
17                  discount under part V of subchapter P and  
18                  such other amounts as regulations may pro-  
19                  vide) on an obligation which is in registered  
20                  form; except that this clause shall not apply  
21                  to—

22                   “(I) any interest on an obligation  
23                   issued by a corporation or partnership  
24                   if the regulated investment company is

1                   a 10-percent shareholder in such cor-  
 2                   poration or partnership, and

3                   “(II) any interest which is treated  
 4                   as not being portfolio interest under  
 5                   the rules of subsection (h)(4).

6                   “(iii) Any interest referred to in sub-  
 7                   section (i)(2)(A) (without regard to the  
 8                   trade or business of the regulated investment  
 9                   company).

10                  “(iv) Any interest-related dividend in-  
 11                  cludable in gross income with respect to  
 12                  stock of another regulated investment com-  
 13                  pany.

14                  Such term includes any interest derived by the  
 15                  regulated investment company from sources out-  
 16                  side the United States other than interest that is  
 17                  subject to a tax imposed by a foreign jurisdiction  
 18                  if the amount of such tax is reduced (or elimi-  
 19                  nated) by a treaty with the United States.

20                  “(F) 10-PERCENT SHAREHOLDER.—For  
 21                  purposes of this paragraph, the term ‘10-percent  
 22                  shareholder’ has the meaning given such term by  
 23                  subsection (h)(3)(B).

24                  “(2) SHORT-TERM CAPITAL GAIN DIVIDENDS.—

1           “(A) *IN GENERAL.*—*Except as provided in*  
2           *subparagraph (B), no tax shall be imposed under*  
3           *paragraph (1)(A) of subsection (a) on any short-*  
4           *term capital gain dividend received from a regu-*  
5           *lated investment company.*

6           “(B) *EXCEPTION FOR ALIENS TAXABLE*  
7           *UNDER SUBSECTION (a)(2).*—*Subparagraph (A)*  
8           *shall not apply in the case of any nonresident*  
9           *alien individual subject to tax under subsection*  
10           *(a)(2).*

11           “(C) *SHORT-TERM CAPITAL GAIN DIVI-*  
12           *DEND.*—*For purposes of this paragraph, a short-*  
13           *term capital gain dividend is any dividend (or*  
14           *part thereof) which is designated by the regu-*  
15           *lated investment company as a short-term cap-*  
16           *ital gain dividend in a written notice mailed to*  
17           *its shareholders not later than 60 days after the*  
18           *close of its taxable year. If the aggregate amount*  
19           *so designated with respect to a taxable year of*  
20           *the company (including amounts so designated*  
21           *with respect to dividends paid after the close of*  
22           *the taxable year described in section 855) is*  
23           *greater than the qualified short-term gain of the*  
24           *company for such taxable year, the portion of*  
25           *each distribution which shall be a short-term*

1       *capital gain dividend shall be only that portion*  
2       *of the amounts so designated which such quali-*  
3       *fied short-term gain bears to the aggregate*  
4       *amount so designated.*

5               “(D) *QUALIFIED SHORT-TERM GAIN.*—For  
6       *purposes of subparagraph (C), the term ‘quali-*  
7       *fied short-term gain’ means the excess of the net*  
8       *short-term capital gain of the regulated invest-*  
9       *ment company for the taxable year over the net*  
10       *long-term capital loss (if any) of such company*  
11       *for such taxable year. For purposes of this*  
12       *subparagraph—*

13               “(i) *the net short-term capital gain of*  
14       *the regulated investment company shall be*  
15       *computed by treating any short-term cap-*  
16       *ital gain dividend includible in gross in-*  
17       *come with respect to stock of another regu-*  
18       *lated investment company as a short-term*  
19       *capital gain, and*

20               “(ii) *the excess of the net short-term*  
21       *capital gain for a taxable year over the net*  
22       *long-term capital loss for a taxable year (to*  
23       *which an election under section 4982(e)(4)*  
24       *does not apply) shall be determined without*  
25       *regard to any net capital loss or net short-*



term capital loss attributable to transactions after October 31 of such year, and any such net capital loss or net short-term capital loss shall be treated as arising on the 1st day of the next taxable year.

To the extent provided in regulations, clause (ii) shall apply also for purposes of computing the taxable income of the regulated investment company.”

(2) *FOREIGN CORPORATIONS.*—Section 881 (relating to tax on income of foreign corporations not connected with United States business) is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

“(e) *TAX NOT TO APPLY TO CERTAIN DIVIDENDS OF REGULATED INVESTMENT COMPANIES.*—

“(1) *INTEREST-RELATED DIVIDENDS.*—

“(A) *IN GENERAL.*—Except as provided in subparagraph (B), no tax shall be imposed under paragraph (1) of subsection (a) on any interest-related dividend (as defined in section 871(k)(1)) received from a regulated investment company.

“(B) *EXCEPTION.*—Subparagraph (A) shall not apply—

1                   “(i) to any dividend referred to in sec-  
2                   tion 871(k)(1)(B), and

3                   “(ii) to any interest-related dividend  
4                   received by a controlled foreign corporation  
5                   (within the meaning of section 957(a)) to  
6                   the extent such dividend is attributable to  
7                   interest received by the regulated investment  
8                   company from a person who is a related  
9                   person (within the meaning of section  
10                  864(d)(4)) with respect to such controlled  
11                  foreign corporation.

12                  “(C) TREATMENT OF DIVIDENDS RECEIVED  
13                  BY CONTROLLED FOREIGN CORPORATIONS.—The  
14                  rules of subsection (c)(5)(A) shall apply to any  
15                  interest-related dividend received by a controlled  
16                  foreign corporation (within the meaning of sec-  
17                  tion 957(a)) to the extent such dividend is attrib-  
18                  utable to interest received by the regulated in-  
19                  vestment company which is described in clause  
20                  (ii) of section 871(k)(1)(E) (and not described in  
21                  clause (i), (iii), or the last sentence of such sec-  
22                  tion).

23                  “(2) SHORT-TERM CAPITAL GAIN DIVIDENDS.—  
24                  No tax shall be imposed under paragraph (1) of sub-  
25                  section (a) on any short-term capital gain dividend

(as defined in section 871(k)(2)) received from a regulated investment company.”

(3) *WITHHOLDING TAXES.*—

(A) *Section 1441(c) (relating to exceptions) is amended by adding at the end the following new paragraph:*

“(12) *CERTAIN DIVIDENDS RECEIVED FROM REGULATED INVESTMENT COMPANIES.*—

“(A) *IN GENERAL.*—No tax shall be required to be deducted and withheld under subsection (a) from any amount exempt from the tax imposed by section 871(a)(1)(A) by reason of section 871(k).

“(B) *SPECIAL RULE.*—For purposes of subparagraph (A), clause (i) of section 871(k)(1)(B) shall not apply to any dividend unless the regulated investment company knows that such dividend is a dividend referred to in such clause. A similar rule shall apply with respect to the exception contained in section 871(k)(2)(B).”

(B) *Section 1442(a) (relating to withholding of tax on foreign corporations) is amended—*

1                   (i) by striking “and the reference in  
2                   section 1441(c)(10)” and inserting “the ref-  
3                   erence in section 1441(c)(10)”, and

4                   (ii) by inserting before the period at  
5                   the end the following: “, and the references  
6                   in section 1441(c)(12) to sections 871(a)  
7                   and 871(k) shall be treated as referring to  
8                   sections 881(a) and 881(e) (except that for  
9                   purposes of applying subparagraph (A) of  
10                  section 1441(c)(12), as so modified, clause  
11                  (ii) of section 881(e)(1)(B) shall not apply  
12                  to any dividend unless the regulated invest-  
13                  ment company knows that such dividend is  
14                  a dividend referred to in such clause)”.

15           (b) *ESTATE TAX TREATMENT OF INTEREST IN CER-*  
16 *TAIN REGULATED INVESTMENT COMPANIES.*—Section 2105  
17 *(relating to property without the United States for estate*  
18 *tax purposes)* is amended by adding at the end the following  
19 *new subsection:*

20           “(d) *STOCK IN A RIC.*—

21                   “(1) *IN GENERAL.*—For purposes of this sub-  
22                  chapter, stock in a regulated investment company (as  
23                  defined in section 851) owned by a nonresident not  
24                  a citizen of the United States shall not be deemed  
25                  property within the United States in the proportion

1     *that, at the end of the quarter of such investment*  
 2     *company's taxable year immediately preceding a de-*  
 3     *cedent's date of death (or at such other time as the*  
 4     *Secretary may designate in regulations), the assets of*  
 5     *the investment company that were qualifying assets*  
 6     *with respect to the decedent bore to the total assets of*  
 7     *the investment company.*

8             “(2) *QUALIFYING ASSETS.*—*For purposes of this*  
 9     *subsection, qualifying assets with respect to a dece-*  
 10    *dent are assets that, if owned directly by the decedent,*  
 11    *would have been—*

12            “(A) *amounts, deposits, or debt obligations*  
 13    *described in subsection (b) of this section,*

14            “(B) *debt obligations described in the last*  
 15    *sentence of section 2104(c), or*

16            “(C) *other property not within the United*  
 17    *States.”*

18    (c) *TREATMENT OF REGULATED INVESTMENT COMPA-*  
 19    *NIES UNDER SECTION 897.—*

20            (1) *Paragraph (1) of section 897(h) is amended*  
 21    *by striking “REIT” each place it appears and insert-*  
 22    *ing “qualified investment entity”.*

23            (2) *Paragraphs (2) and (3) of section 897(h) are*  
 24    *amended to read as follows:*

1           “(2) *SALE OF STOCK IN DOMESTICALLY CON-*  
 2           *TROLLED ENTITY NOT TAXED.*—*The term ‘United*  
 3           *States real property interest’ does not include any in-*  
 4           *terest in a domestically controlled qualified invest-*  
 5           *ment entity.*

6           “(3) *DISTRIBUTIONS BY DOMESTICALLY CON-*  
 7           *TROLLED QUALIFIED INVESTMENT ENTITIES.*—*In the*  
 8           *case of a domestically controlled qualified investment*  
 9           *entity, rules similar to the rules of subsection (d)*  
 10           *shall apply to the foreign ownership percentage of any*  
 11           *gain.”*

12           (3) *Subparagraphs (A) and (B) of section*  
 13           *897(h)(4) are amended to read as follows:*

14           “(A) *QUALIFIED INVESTMENT ENTITY.*—*The*  
 15           *term ‘qualified investment entity’ means any*  
 16           *real estate investment trust and any regulated*  
 17           *investment company.*

18           “(B) *DOMESTICALLY CONTROLLED.*—*The*  
 19           *term ‘domestically controlled qualified invest-*  
 20           *ment entity’ means any qualified investment en-*  
 21           *tity in which at all times during the testing pe-*  
 22           *riod less than 50 percent in value of the stock*  
 23           *was held directly or indirectly by foreign per-*  
 24           *sons.”*

1           (4) Subparagraphs (C) and (D) of section  
 2           897(h)(4) are each amended by striking “REIT” and  
 3           inserting “qualified investment entity”.

4           (5) The subsection heading for subsection (h) of  
 5           section 897 is amended by striking “REITS” and in-  
 6           serting “CERTAIN INVESTMENT ENTITIES”.

7           (d) *EFFECTIVE DATE.*—

8           (1) *IN GENERAL.*—Except as otherwise provided  
 9           in this subsection, the amendments made by this sec-  
 10          tion shall apply to dividends with respect to taxable  
 11          years of regulated investment companies beginning  
 12          after December 31, 2004.

13          (2) *ESTATE TAX TREATMENT.*—The amendment  
 14          made by subsection (b) shall apply to estates of dece-  
 15          dents dying after December 31, 2004.

16          (3) *CERTAIN OTHER PROVISIONS.*—The amend-  
 17          ments made by subsection (c) (other than paragraph  
 18          (1) thereof) shall take effect on January 1, 2005.

19 **SEC. 908. REPEAL OF SPECIAL RULES FOR APPLYING FOR-**  
 20 **EIGN TAX CREDIT IN CASE OF FOREIGN OIL**  
 21 **AND GAS INCOME.**

22          (a) *IN GENERAL.*—Section 907 (relating to special  
 23          rules in case of foreign oil and gas income) is repealed.

24          (b) *CONFORMING AMENDMENTS.*—

1           (1) *Each of the following provisions are amended*  
 2     *by striking “907,”:*

3                     (A) *Section 245(a)(10).*

4                     (B) *Section 865(h)(1)(B).*

5                     (C) *Section 904(d)(1).*

6                     (D) *Section 904(g)(10)(A).*

7           (2) *Section 904(f)(5)(E)(iii) is amended by in-*  
 8     *serting “, as in effect before its repeal by the Finan-*  
 9     *cial Freedom Act of 1999” after “section*  
 10    *907(c)(4)(B)”.*

11          (3) *Section 954(g)(1) is amended by inserting “,*  
 12    *as in effect before its repeal by the Financial Freedom*  
 13    *Act of 1999” after “907(c)”.*

14          (4) *Section 6501(i) is amended—*

15                     (A) *by striking “, or under section 907(f)*  
 16     *(relating to carryback and carryover of dis-*  
 17     *allowed oil and gas extraction taxes)” and*

18                     (B) *by striking “or 907(f)”.*

19          (5) *The table of sections for subpart A of part III*  
 20    *of subchapter N of chapter 1 is amended by striking*  
 21    *the item relating to section 907.*

22          (c) *EFFECTIVE DATE.—The amendments made by this*  
 23    *section shall apply to taxable years beginning after Decem-*  
 24    *ber 31, 2004.*



1 **SEC. 909. STUDY OF PROPER TREATMENT OF EUROPEAN**  
2 **UNION UNDER SAME COUNTRY EXCEPTIONS.**

3 (a) *STUDY.*—The Secretary of the Treasury or the Sec-  
4 retary's delegate shall conduct a study on the feasibility of  
5 treating all countries included in the European Union as  
6 1 country for purposes of applying the same country excep-  
7 tions under subpart F of part III of subchapter N of chapter  
8 1 of the Internal Revenue Code of 1986.

9 (b) *REPORT.*—Not later than 6 months after the date  
10 of the enactment of this Act, the Secretary of the Treasury  
11 shall report to the Committee on Ways and Means of the  
12 House of Representatives and the Committee on Finance  
13 of the Senate the results of the study conducted under sub-  
14 section (a), including recommendations (if any) for legisla-  
15 tion.

16 **SEC. 910. APPLICATION OF DENIAL OF FOREIGN TAX CRED-**  
17 **IT WITH RESPECT TO CERTAIN FOREIGN**  
18 **COUNTRIES.**

19 (a) *IN GENERAL.*—Clause (ii) of section 901(j)(2)(B)  
20 (relating to denial of foreign tax credit, etc., with respect  
21 to certain foreign countries) is amended by inserting before  
22 the period “or, if earlier, ending on the date that the Presi-  
23 dent determines that the application of this subsection to  
24 such foreign country is no longer in the national interests  
25 of the United States”.

1       (b) *EFFECTIVE DATE.*—*The amendment made by this*  
 2 *section shall take effect on the date of the enactment of this*  
 3 *Act.*

4       **SEC. 911. ADVANCE PRICING AGREEMENTS TREATED AS**  
 5               **CONFIDENTIAL TAXPAYER INFORMATION.**

6       (a) *IN GENERAL.*—

7               (1) *TREATMENT AS RETURN INFORMATION.*—  
 8       *Paragraph (2) of section 6103(b) (defining return in-*  
 9 *formation) is amended by striking “and” at the end*  
 10 *of subparagraph (A), by inserting “and” at the end*  
 11 *of subparagraph (B), and by inserting after subpara-*  
 12 *graph (B) the following new subparagraph:*

13               “(C) *any advance pricing agreement en-*  
 14 *tered into by a taxpayer and the Secretary and*  
 15 *any background information related to such*  
 16 *agreement or any application for an advance*  
 17 *pricing agreement,”.*

18               (2) *EXCEPTION FROM PUBLIC INSPECTION AS*  
 19 *WRITTEN DETERMINATION.*—*Paragraph (1) of section*  
 20 *6110(b) (defining written determination) is amended*  
 21 *by adding at the end the following new sentence:*  
 22 *“Such term shall not include any advance pricing*  
 23 *agreement entered into by a taxpayer and the Sec-*  
 24 *retary and any background information related to*

1        *such agreement or any application for an advance*  
2        *pricing agreement.”.*

3            (3) *EFFECTIVE DATE.*—*The amendments made*  
4        *by this subsection shall take effect on the date of the*  
5        *enactment of this Act.*

6        (b) *ANNUAL REPORT REGARDING ADVANCE PRICING*  
7        *AGREEMENTS.*—

8            (1) *IN GENERAL.*—*Not later than 90 days after*  
9        *the end of each calendar year, the Secretary of the*  
10       *Treasury shall prepare and publish a report regard-*  
11       *ing advance pricing agreements.*

12           (2) *CONTENTS OF REPORT.*—*The report shall in-*  
13       *clude the following for the calendar year to which*  
14       *such report relates:*

15           (A) *Information about the structure, com-*  
16       *position, and operation of the advance pricing*  
17       *agreement program office.*

18           (B) *A copy of each model advance pricing*  
19       *agreement.*

20           (C) *The number of—*

21           (i) *applications filed during such cal-*  
22       *endar year for advanced pricing agree-*  
23       *ments;*

1           (ii) advance pricing agreements exe-  
2           cuted cumulatively to date and during such  
3           calendar year;

4           (iii) renewals of advanced pricing  
5           agreements issued;

6           (iv) pending requests for advance pric-  
7           ing agreements;

8           (v) pending renewals of advance pric-  
9           ing agreements;

10          (vi) for each of the items in clauses (ii)  
11          through (v), the number that are unilateral,  
12          bilateral, and multilateral, respectively;

13          (vii) advance pricing agreements re-  
14          voked or canceled, and the number of with-  
15          drawals from the advance pricing agree-  
16          ment program; and

17          (viii) advanced pricing agreements fi-  
18          nalized or renewed by industry.

19       (D) General descriptions of—

20           (i) the nature of the relationships be-  
21           tween the related organizations, trades, or  
22           businesses covered by advance pricing agree-  
23           ments;

24           (ii) the covered transactions and the  
25           business functions performed and risks as-

1           *sumed by such organizations, trades, or*  
2           *businesses;*

3           *(iii) the related organizations, trades,*  
4           *or businesses whose prices or results are*  
5           *tested to determine compliance with transfer*  
6           *pricing methodologies prescribed in ad-*  
7           *vanced pricing agreements;*

8           *(iv) methodologies used to evaluate test-*  
9           *ed parties and transactions and the cir-*  
10          *cumstances leading to the use of those meth-*  
11          *odologies;*

12          *(v) critical assumptions made and*  
13          *sources of comparables used;*

14          *(vi) comparable selection criteria and*  
15          *the rationale used in determining such cri-*  
16          *teria;*

17          *(vii) the nature of adjustments to*  
18          *comparables or tested parties;*

19          *(viii) the nature of any ranges agreed*  
20          *to, including information regarding when*  
21          *no range was used and why, when inter-*  
22          *quartile ranges were used, and when there*  
23          *was a statistical narrowing of the*  
24          *comparables;*

1                   *(ix) adjustment mechanisms provided*  
2                   *to rectify results that fall outside of the*  
3                   *agreed upon advance pricing agreement*  
4                   *range;*

5                   *(x) the various term lengths for ad-*  
6                   *vance pricing agreements, including roll-*  
7                   *back years, and the number of advance*  
8                   *pricing agreements with each such term*  
9                   *length;*

10                  *(xi) the nature of documentation re-*  
11                  *quired; and*

12                  *(xii) approaches for sharing of cur-*  
13                  *rency or other risks.*

14                  *(E) Statistics regarding the amount of time*  
15                  *taken to complete new and renewal advance pric-*  
16                  *ing agreements.*

17                  *(3) CONFIDENTIALITY.—The reports required by*  
18                  *this subsection shall be treated as authorized by the*  
19                  *Internal Revenue Code of 1986 for purposes of section*  
20                  *6103 of such Code, but the reports shall not include*  
21                  *information—*

22                  *(A) which would not be permitted to be dis-*  
23                  *closed under section 6110(c) of such Code if such*  
24                  *report were a written determination as defined*  
25                  *in section 6110 of such Code, or*

1                   (B) which can be associated with, or other-  
2                   wise identify, directly or indirectly, a particular  
3                   taxpayer.

4                   (4) *FIRST REPORT.*—The report for calendar  
5                   year 1999 shall include prior calendar years after  
6                   1990.

7                   (c) *USER FEE.*—Section 7527, as added by title XV  
8                   of this Act, is amended by redesignating subsection (c) as  
9                   subsection (d) and by inserting after subsection (b) the fol-  
10                  lowing new subsection:

11               “(c) *ADVANCE PRICING AGREEMENTS.*—

12                   “(1) *IN GENERAL.*—In addition to any fee other-  
13                   wise imposed under this section, the fee imposed for  
14                   requests for advance pricing agreements shall be in-  
15                   creased by \$500.

16                   “(2) *REDUCED FEE FOR SMALL BUSINESSES.*—  
17                   The Secretary shall provide an appropriate reduction  
18                   in the amount imposed by reason of paragraph (1)  
19                   for requests for advance pricing agreements for small  
20                   businesses.”

21                   (d) *REGULATIONS.*—The Secretary of the Treasury or  
22                   the Secretary’s delegate shall prescribe such regulations as  
23                   may be necessary or appropriate to carry out the purposes  
24                   of section 6103(b)(2)(C), and the last sentence of section

1 6110(b)(1), of the Internal Revenue Code of 1986, as added  
 2 by this section.

3 **SEC. 912. INCREASE IN DOLLAR LIMITATION ON SECTION**  
 4 **911 EXCLUSION.**

5 (a) *GENERAL RULE.*—The table contained in clause  
 6 (i) of section 911(b)(2)(D) is amended to read as follows:

<b>“For calendar year—</b>	<b>The exclusion amount is—</b>
2000 .....	\$76,000
2001 .....	78,000
2002 .....	80,000
2003 .....	83,000
2004 .....	86,000
2005 .....	89,000
2006 .....	92,000
2007 and thereafter .....	95,000.”

7 (b) *CONFORMING AMENDMENT.*—Clause (ii) of section  
 8 911(b)(2)(D) is amended by striking “\$80,000” and insert-  
 9 ing “\$95,000”.

10 (c) *EFFECTIVE DATE.*—The amendments made by this  
 11 section shall apply to taxable years beginning after Decem-  
 12 ber 31, 1999.



1 **TITLE X—PROVISIONS RELATING**  
 2 **TO TAX-EXEMPT ORGANIZA-**  
 3 **TIONS**

4 **SEC. 1001. EXEMPTION FROM INCOME TAX FOR STATE-CRE-**  
 5 **ATED ORGANIZATIONS PROVIDING PROP-**  
 6 **ERTY AND CASUALTY INSURANCE FOR PROP-**  
 7 **ERTY FOR WHICH SUCH COVERAGE IS OTHER-**  
 8 **WISE UNAVAILABLE.**

9 *(a) IN GENERAL.—Subsection (c) of section 501 (relat-*  
 10 *ing to exemption from tax on corporations, certain trusts,*  
 11 *etc.) is amended by adding at the end the following new*  
 12 *paragraph:*

13 *“(28)(A) Any association created before January*  
 14 *1, 1999, by State law and organized and operated ex-*  
 15 *clusively to provide property and casualty insurance*  
 16 *coverage for property located within the State for*  
 17 *which the State has determined that coverage in the*  
 18 *authorized insurance market is limited or unavailable*  
 19 *at reasonable rates, if—*

20 *“(i) no part of the net earnings of which in-*  
 21 *ures to the benefit of any private shareholder or*  
 22 *individual,*

23 *“(ii) except as provided in clause (v), no*  
 24 *part of the assets of which may be used for, or*  
 25 *diverted to, any purpose other than—*

1           “(I) to satisfy, in whole or in part, the  
2           liability of the association for, or with re-  
3           spect to, claims made on policies written by  
4           the association,

5           “(II) to invest in investments author-  
6           ized by applicable law,

7           “(III) to pay reasonable and necessary  
8           administration expenses in connection with  
9           the establishment and operation of the asso-  
10          ciation and the processing of claims against  
11          the association, or

12          “(IV) to make remittances pursuant to  
13          State law to be used by the State to provide  
14          for the payment of claims on policies writ-  
15          ten by the association, purchase reinsurance  
16          covering losses under such policies, or to  
17          support governmental programs to prepare  
18          for or mitigate the effects of natural cata-  
19          strophic events,

20          “(iii) the State law governing the associa-  
21          tion permits the association to levy assessments  
22          on insurance companies authorized to sell prop-  
23          erty and casualty insurance in the State, or on  
24          property and casualty insurance policyholders  
25          with insurable interests in property located in

1       *the State to fund deficits of the association, in-*  
2       *cluding the creation of reserves,*

3               *“(iv) the plan of operation of the associa-*  
4       *tion is subject to approval by the chief executive*  
5       *officer or other official of the State, by the State*  
6       *legislature, or both, and*

7               *“(v) the assets of the association revert upon*  
8       *dissolution to the State, the State’s designee, or*  
9       *an entity designated by the State law governing*  
10       *the association, or State law does not permit the*  
11       *dissolution of the association.*

12              *“(B)(i) An entity described in clause (ii) shall be*  
13       *disregarded as a separate entity and treated as part*  
14       *of the association described in subparagraph (A) from*  
15       *which it receives remittances described in clause (ii)*  
16       *if an election is made within 30 days after the date*  
17       *that such association is determined to be exempt from*  
18       *tax.*

19              *“(ii) An entity is described in this clause if it*  
20       *is an entity or fund created before January 1, 1999,*  
21       *pursuant to State law and organized and operated*  
22       *exclusively to receive, hold, and invest remittances*  
23       *from an association described in subparagraph (A)*  
24       *and exempt from tax under subsection (a), to make*  
25       *disbursements to pay claims on insurance contracts*

1       *issued by such association, and to make disbursements*  
2       *to support governmental programs to prepare for or*  
3       *mitigate the effects of natural catastrophic events.”*

4       **(b) UNRELATED BUSINESS TAXABLE INCOME.**—Sub-  
5       *section (a) of section 512 (relating to unrelated business*  
6       *taxable income) is amended by adding at the end the fol-*  
7       *lowing new paragraph:*

8               **“(6) SPECIAL RULE APPLICABLE TO ORGANIZA-**  
9       **TIONS DESCRIBED IN SECTION 501(C)(28).**—*In the case*  
10       *of an organization described in section 501(c)(28), the*  
11       *term ‘unrelated business taxable income’ means tax-*  
12       *able income for a taxable year computed without the*  
13       *application of section 501(c)(28) if at the end of the*  
14       *immediately preceding taxable year the organization’s*  
15       *net equity exceeded 15 percent of the total coverage in*  
16       *force under insurance contracts issued by the organi-*  
17       *zation and outstanding at the end of such preceding*  
18       *year.”*

19       **(c) TRANSITIONAL RULE.**—*No income or gain shall be*  
20       *recognized by an association as a result of a change in sta-*  
21       *tus to that of an association described by section 501(c)(28)*  
22       *of the Internal Revenue Code of 1986, as amended by sub-*  
23       *section (a).*

1       (d) *EFFECTIVE DATE.*—*The amendment made by sub-*  
 2 *section (a) shall apply to taxable years beginning after De-*  
 3 *cember 31, 1999.*

4       **SEC. 1002. MODIFICATION OF SPECIAL ARBITRAGE RULE**  
 5               **FOR CERTAIN FUNDS.**

6       (a) *IN GENERAL.*—*Paragraph (1) of section 648 of the*  
 7 *Tax Reform Act of 1984 is amended to read as follows:*

8               “(1) *such securities or obligations are held in a*  
 9 *fund—*

10               “(A) *which, except to the extent of the in-*  
 11 *vestment earnings on such securities or obliga-*  
 12 *tions, cannot be used, under State constitutional*  
 13 *or statutory restrictions continuously in effect*  
 14 *since October 9, 1969, through the date of issue*  
 15 *of the bond issue, to pay debt service on the bond*  
 16 *issue or to finance the facilities that are to be fi-*  
 17 *nanced with the proceeds of the bonds, or*

18               “(B) *the annual distributions from which*  
 19 *cannot exceed 7 percent of the average fair mar-*  
 20 *ket value of the assets held in such fund except*  
 21 *to the extent distributions are necessary to pay*  
 22 *debt service on the bond issue,”.*

23       (b) *CONFORMING AMENDMENT.*—*Paragraph (3) of*  
 24 *such section is amended by striking “the investment earn-*  
 25 *ings of” and inserting “distributions from”.*

1       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall take effect on January 1, 2000.*

3 **SEC. 1003. CHARITABLE SPLIT-DOLLAR LIFE INSURANCE,**  
 4 **ANNUITY, AND ENDOWMENT CONTRACTS.**

5       (a) *IN GENERAL.*—*Subsection (f) of section 170 (relat-*  
 6 *ing to disallowance of deduction in certain cases and spe-*  
 7 *cial rules) is amended by adding at the end the following*  
 8 *new paragraph:*

9               “(10) *SPLIT-DOLLAR LIFE INSURANCE, ANNUITY,*  
 10 *AND ENDOWMENT CONTRACTS.*—

11               “(A) *IN GENERAL.*—*Nothing in this section*  
 12 *or in section 545(b)(2), 556(b)(2), 642(c), 2055,*  
 13 *2106(a)(2), or 2522 shall be construed to allow*  
 14 *a deduction, and no deduction shall be allowed,*  
 15 *for any transfer to or for the use of an organiza-*  
 16 *tion described in subsection (c) if in connection*  
 17 *with such transfer—*

18               “(i) *the organization directly or indi-*  
 19 *rectly pays, or has previously paid, any*  
 20 *premium on any personal benefit contract*  
 21 *with respect to the transferor, or*

22               “(ii) *there is an understanding or ex-*  
 23 *pectation that any person will directly or*  
 24 *indirectly pay any premium on any per-*

1           sonal benefit contract with respect to the  
2           transferor.

3           “(B) *PERSONAL BENEFIT CONTRACT.*—For  
4           purposes of subparagraph (A), the term ‘personal  
5           benefit contract’ means, with respect to the  
6           transferor, any life insurance, annuity, or en-  
7           dowment contract if any direct or indirect bene-  
8           ficiary under such contract is the transferor, any  
9           member of the transferor’s family, or any other  
10          person (other than an organization described in  
11          subsection (c)) designated by the transferor.

12          “(C) *APPLICATION TO CHARITABLE REMAIN-*  
13          *DER TRUSTS.*—In the case of a transfer to a  
14          trust referred to in subparagraph (E), references  
15          in subparagraphs (A) and (F) to an organiza-  
16          tion described in subsection (c) shall be treated  
17          as a reference to such trust.

18          “(D) *EXCEPTION FOR CERTAIN ANNUITY*  
19          *CONTRACTS.*—If, in connection with a transfer to  
20          or for the use of an organization described in  
21          subsection (c), such organization incurs an obli-  
22          gation to pay a charitable gift annuity (as de-  
23          fined in section 501(m)) and such organization  
24          purchases any annuity contract to fund such ob-  
25          ligation, persons receiving payments under the

1        *charitable gift annuity shall not be treated for*  
2        *purposes of subparagraph (B) as indirect bene-*  
3        *ficiaries under such contract if—*

4                *“(i) such organization possesses all of*  
5                *the incidents of ownership under such con-*  
6                *tract,*

7                *“(ii) such organization is entitled to*  
8                *all the payments under such contract, and*

9                *“(iii) the timing and amount of pay-*  
10                *ments under such contract are substantially*  
11                *the same as the timing and amount of pay-*  
12                *ments to each such person under such obli-*  
13                *gation (as such obligation is in effect at the*  
14                *time of such transfer).*

15                *“(E) EXCEPTION FOR CERTAIN CONTRACTS*  
16                *HELD BY CHARITABLE REMAINDER TRUSTS.—A*  
17                *person shall not be treated for purposes of sub-*  
18                *paragraph (B) as an indirect beneficiary under*  
19                *any life insurance, annuity, or endowment con-*  
20                *tract held by a charitable remainder annuity*  
21                *trust or a charitable remainder unitrust (as de-*  
22                *finied in section 664(d)) solely by reason of being*  
23                *entitled to any payment referred to in para-*  
24                *graph (1)(A) or (2)(A) of section 664(d) if—*



1           “(i) *such trust possesses all of the inci-*  
2           *dents of ownership under such contract, and*

3           “(ii) *such trust is entitled to all the*  
4           *payments under such contract.*

5           “(F) *EXCISE TAX ON PREMIUMS PAID.—*

6           “(i) *IN GENERAL.—There is hereby im-*  
7           *posed on any organization described in sub-*  
8           *section (c) an excise tax equal to the pre-*  
9           *miums paid by such organization on any*  
10          *life insurance, annuity, or endowment con-*  
11          *tract if the payment of premiums on such*  
12          *contract is in connection with a transfer for*  
13          *which a deduction is not allowable under*  
14          *subparagraph (A), determined without re-*  
15          *gard to when such transfer is made.*

16          “(ii) *PAYMENTS BY OTHER PER-*  
17          *SONS.—For purposes of clause (i), pay-*  
18          *ments made by any other person pursuant*  
19          *to an understanding or expectation referred*  
20          *to in subparagraph (A) shall be treated as*  
21          *made by the organization.*

22          “(iii) *REPORTING.—Any organization*  
23          *on which tax is imposed by clause (i) with*  
24          *respect to any premium shall file an annual*  
25          *return which includes—*

1                   “(I) *the amount of such premiums*  
2                   *paid during the year and the name*  
3                   *and TIN of each beneficiary under the*  
4                   *contract to which the premium relates,*  
5                   *and*

6                   “(II) *such other information as*  
7                   *the Secretary may require.*

8                   *The penalties applicable to returns required*  
9                   *under section 6033 shall apply to returns*  
10                  *required under this clause. Returns required*  
11                  *under this clause shall be furnished at such*  
12                  *time and in such manner as the Secretary*  
13                  *shall by forms or regulations require.*

14                  “(iv) *CERTAIN RULES TO APPLY.—The*  
15                  *tax imposed by this subparagraph shall be*  
16                  *treated as imposed by chapter 42 for pur-*  
17                  *poses of this title other than subchapter B*  
18                  *of chapter 42.*

19                  “(G) *SPECIAL RULE WHERE STATE RE-*  
20                  *QUIRES SPECIFICATION OF CHARITABLE GIFT AN-*  
21                  *NUITANT IN CONTRACT.—In the case of an obli-*  
22                  *gation to pay a charitable gift annuity referred*  
23                  *to in subparagraph (D) which is entered into*  
24                  *under the laws of a State which requires, in*  
25                  *order for the charitable gift annuity to be exempt*

1       *from insurance regulation by such State, that*  
2       *each beneficiary under the charitable gift annu-*  
3       *ity be named as a beneficiary under an annuity*  
4       *contract issued by an insurance company au-*  
5       *thorized to transact business in such State, the*  
6       *requirements of clauses (i) and (ii) of subpara-*  
7       *graph (D) shall be treated as met if—*

8               *“(i) such State law requirement was in*  
9               *effect on February 8, 1999,*

10              *“(ii) each such beneficiary under the*  
11              *charitable gift annuity is a bona fide resi-*  
12              *dent of such State at the time the obligation*  
13              *to pay a charitable gift annuity is entered*  
14              *into, and*

15              *“(iii) the only persons entitled to pay-*  
16              *ments under such contract are persons enti-*  
17              *tled to payments as beneficiaries under such*  
18              *obligation on the date such obligation is en-*  
19              *tered into.*

20              *“(H) MEMBER OF FAMILY.—For purposes*  
21              *of this paragraph, an individual’s family con-*  
22              *sists of the individual’s grandparents, the grand-*  
23              *parents of such individual’s spouse, the lineal de-*  
24              *scendants of such grandparents, and any spouse*  
25              *of such a lineal descendant.*

1           “(I) *REGULATIONS.*—*The Secretary shall*  
 2           *prescribe such regulations as may be necessary*  
 3           *or appropriate to carry out the purposes of this*  
 4           *paragraph, including regulations to prevent the*  
 5           *avoidance of such purposes.”*

6           **(b) *EFFECTIVE DATE.*—**

7           **(1) *IN GENERAL.*—***Except as otherwise provided*  
 8           *in this section, the amendment made by this section*  
 9           *shall apply to transfers made after February 8, 1999.*

10          **(2) *EXCISE TAX.*—***Except as provided in para-*  
 11          *graph (3) of this subsection, section 170(f)(10)(F) of*  
 12          *the Internal Revenue Code of 1986 (as added by this*  
 13          *section) shall apply to premiums paid after the date*  
 14          *of the enactment of this Act.*

15          **(3) *REPORTING.*—***Clause (iii) of such section*  
 16          *170(f)(10)(F) shall apply to premiums paid after*  
 17          *February 8, 1999 (determined as if the tax imposed*  
 18          *by such section applies to premiums paid after such*  
 19          *date).*

20       **SEC. 1004. EXEMPTION PROCEDURE FROM TAXES ON SELF-**  
 21       **DEALING.**

22          **(a) *IN GENERAL.*—***Subsection (d) of section 4941 (re-*  
 23          *lating to taxes on self-dealing) is amended by adding at*  
 24          *the end the following new paragraph:*

1           “(3) *SPECIAL EXEMPTION.*—*The Secretary shall*  
2           *establish an exemption procedure for purposes of this*  
3           *subsection. Pursuant to such procedure, the Secretary*  
4           *may grant a conditional or unconditional exemption*  
5           *of any disqualified person or transaction or class of*  
6           *disqualified persons or transactions, from all or part*  
7           *of the restrictions imposed by paragraph (1). The Sec-*  
8           *retary may not grant an exemption under this para-*  
9           *graph unless he finds that such exemption is—*

10                   “(A) *administratively feasible,*

11                   “(B) *in the interests of the private founda-*  
12                   *tion, and*

13                   “(C) *protective of the rights of the private*  
14                   *foundation.*

15           *Before granting an exemption under this paragraph,*  
16           *the Secretary shall require adequate notice to be given*  
17           *to interested persons and shall publish notice in the*  
18           *Federal Register of the pendency of such exemption*  
19           *and shall afford interested persons an opportunity to*  
20           *present views.”.*

21           “(b) *EFFECTIVE DATE.*—*The amendment made by this*  
22           *section shall apply to transactions occurring after the date*  
23           *of the enactment of this Act.*

1 **SEC. 1005. EXPANSION OF DECLARATORY JUDGMENT REM-**  
 2 **EDY TO TAX-EXEMPT ORGANIZATIONS.**

3 (a) *IN GENERAL.*—Subsection (a) of section 7428 (re-  
 4 lating to creation of remedy) is amended—

5 (1) in subparagraph (B) by inserting after  
 6 “509(a))” the following: “or as a private operating  
 7 foundation (as defined in section 4942(j)(3))”, and

8 (2) by amending subparagraph (C) to read as  
 9 follows:

10 “(C) with respect to the initial qualification  
 11 or continuing qualification of an organization as  
 12 an organization described in section 501(c)  
 13 (other than paragraph (3)) which is exempt from  
 14 tax under section 501(a), or”.

15 (b) *COURT JURISDICTION.*—Subsection (a) of section  
 16 7428 is amended in the material following paragraph (2)  
 17 by striking “United States Tax Court, the United States  
 18 Claims Court, or the district court of the United States for  
 19 the District of Columbia” and inserting the following:  
 20 “United States Tax Court (in the case of any such deter-  
 21 mination or failure) or the United States Claims Court or  
 22 the district court of the United States for the District of  
 23 Columbia (in the case of a determination or failure with  
 24 respect to an issue referred to in subparagraph (A) or (B)  
 25 of paragraph (1)),”.

1       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall apply to pleadings filed with respect to deter-*  
 3 *minations (or requests for determinations) made after the*  
 4 *date of the enactment of this Act.*

5   **SEC. 1006. MODIFICATIONS TO SECTION 512(b)(13).**

6       (a) *IN GENERAL.*—*Paragraph (13) of section 512(b)*  
 7 *is amended by redesignating subparagraph (E) as subpara-*  
 8 *graph (F) and by inserting after subparagraph (D) the fol-*  
 9 *lowing new paragraph:*

10                   “(E) *PARAGRAPH TO APPLY ONLY TO EX-*  
 11                   *CESS PAYMENTS.*—

12                           “(i) *IN GENERAL.*—*Subparagraph (A)*  
 13                           *shall apply only to the portion of a speci-*  
 14                           *fied payment received by the controlling or-*  
 15                           *ganization that exceeds the amount which*  
 16                           *would have been paid if such payment met*  
 17                           *the requirements prescribed under section*  
 18                           *482.*

19                           “(ii) *ADDITION TO TAX FOR VALUATION*  
 20                           *MISSTATEMENTS.*—*The tax imposed by this*  
 21                           *chapter on the controlling organization*  
 22                           *shall be increased by an amount equal to 20*  
 23                           *percent of such excess.”*

24       (b) *EFFECTIVE DATE.*—

1           (1) *IN GENERAL.*—*The amendment made by this*  
 2           *section shall apply to payments received or accrued*  
 3           *after December 31, 1999.*

4           (2) *PAYMENTS SUBJECT TO BINDING CONTRACT*  
 5           *TRANSITION RULE.*—*If the amendments made by sec-*  
 6           *tion 1041 of the Taxpayer Relief Act of 1997 do not*  
 7           *apply to any amount received or accrued after the*  
 8           *date of the enactment of this Act under any contract*  
 9           *described in subsection (b)(2) of such section, such*  
 10          *amendments also shall not apply to amounts received*  
 11          *or accrued under such contract before January 1,*  
 12          *2000.*

13                   ***TITLE XI—REAL ESTATE***  
 14                   ***PROVISIONS***

15          ***Subtitle A—Provisions Relating to***  
 16          ***Real Estate Investment Trusts***

17          ***PART I—TREATMENT OF INCOME AND SERVICES***  
 18          ***PROVIDED BY TAXABLE REIT SUBSIDIARIES***

19          ***SEC. 1101. MODIFICATIONS TO ASSET DIVERSIFICATION***  
 20                  ***TEST.***

21          (a) *IN GENERAL.*—*Subparagraph (B) of section*  
 22          *856(c)(4) is amended to read as follows:*

23                       “(B)(i) *not more than 25 percent of the*  
 24                       *value of its total assets is represented by securi-*



1           ties (other than those includible under subpara-  
2           graph (A)), and

3           “(ii) except with respect to a taxable REIT  
4           subsidiary and securities includible under sub-  
5           paragraph (A)—

6           “(I) not more than 5 percent of the  
7           value of its total assets is represented by se-  
8           curities of any 1 issuer,

9           “(II) the trust does not hold securities  
10          possessing more than 10 percent of the total  
11          voting power of the outstanding securities of  
12          any 1 issuer, and

13          “(III) the trust does not hold securities  
14          having a value of more than 10 percent of  
15          the total value of the outstanding securities  
16          of any 1 issuer.”

17          (b) *EXCEPTION FOR STRAIGHT DEBT SECURITIES.*—  
18          Subsection (c) of section 856 is amended by adding at the  
19          end the following new paragraph:

20                 “(7) *STRAIGHT DEBT SAFE HARBOR IN APPLYING*  
21          *PARAGRAPH (4).*—Securities of an issuer which are  
22          straight debt (as defined in section 1361(c)(5) without  
23          regard to subparagraph (B)(iii) thereof) shall not be  
24          taken into account in applying paragraph  
25          (4)(B)(ii)(III) if—

1           “(A) the only securities of such issuer which  
 2           are held by the trust or a taxable REIT sub-  
 3           sidiary of the trust are straight debt (as so de-  
 4           fined), or

5           “(B) the issuer is a partnership and the  
 6           trust holds at least a 20 percent profits interest  
 7           in the partnership.”

8   **SEC. 1102. TREATMENT OF INCOME AND SERVICES PRO-**  
 9           **VIDED BY TAXABLE REIT SUBSIDIARIES.**

10       (a) *INCOME FROM TAXABLE REIT SUBSIDIARIES NOT*  
 11       *TREATED AS IMPERMISSIBLE TENANT SERVICE INCOME.—*  
 12       *Clause (i) of section 856(d)(7)(C) (relating to exceptions to*  
 13       *impermissible tenant service income) is amended by insert-*  
 14       *ing “or through a taxable REIT subsidiary of such trust”*  
 15       *after “income”.*

16       (b) *CERTAIN INCOME FROM TAXABLE REIT SUBSIDI-*  
 17       *ARIES NOT EXCLUDED FROM RENTS FROM REAL PROP-*  
 18       *ERTY.—*

19           (1) *IN GENERAL.—*Subsection (d) of section 856  
 20       *(relating to rents from real property defined) is*  
 21       *amended by adding at the end the following new*  
 22       *paragraphs:*

23           “(8) *SPECIAL RULE FOR TAXABLE REIT SUBSIDI-*  
 24       *ARIES.—For purposes of this subsection, amounts*  
 25       *paid to a real estate investment trust by a taxable*

1        *REIT subsidiary of such trust shall not be excluded*  
2        *from rents from real property by reason of paragraph*  
3        *(2)(B) if the requirements of subparagraph (A) or (B)*  
4        *are met.*

5                “(A) *LIMITED RENTAL EXCEPTION.—The re-*  
6                *quirements of this subparagraph are met with*  
7                *respect to any property if at least 90 percent of*  
8                *the leased space of the property is rented to per-*  
9                *sons other than taxable REIT subsidiaries of*  
10               *such trust and other than persons described in*  
11               *section 856(d)(2)(B). The preceding sentence*  
12               *shall apply only to the extent that the amounts*  
13               *paid to the trust as rents from real property (as*  
14               *defined in paragraph (1) without regard to*  
15               *paragraph (2)(B)) from such property are sub-*  
16               *stantially comparable to such rents made by the*  
17               *other tenants of the trust’s property for com-*  
18               *parable space.*

19               “(B) *EXCEPTION FOR CERTAIN LODGING FA-*  
20               *CILITIES.—The requirements of this subpara-*  
21               *graph are met with respect to an interest in real*  
22               *property which is a qualified lodging facility*  
23               *leased by the trust to a taxable REIT subsidiary*  
24               *of the trust if the property is operated on behalf*

1           *of such subsidiary by a person who is an eligible*  
2           *independent contractor.*

3           “(9) *ELIGIBLE INDEPENDENT CONTRACTOR.*—

4           *For purposes of paragraph (8)(B)—*

5                   “(A) *IN GENERAL.*—*The term ‘eligible inde-*  
6                   *pendent contractor’ means, with respect to any*  
7                   *qualified lodging facility, any independent con-*  
8                   *tractor if, at the time such contractor enters into*  
9                   *a management agreement or other similar serv-*  
10                  *ice contract with the taxable REIT subsidiary to*  
11                  *operate the facility, such contractor (or any re-*  
12                  *lated person) is actively engaged in the trade or*  
13                  *business of operating qualified lodging facilities*  
14                  *for any person who is not a related person with*  
15                  *respect to the real estate investment trust or the*  
16                  *taxable REIT subsidiary.*

17                  “(B) *SPECIAL RULES.*—*Solely for purposes*  
18                  *of this paragraph and paragraph (8)(B), a per-*  
19                  *son shall not fail to be treated as an independent*  
20                  *contractor with respect to any qualified lodging*  
21                  *facility by reason of any of the following:*

22                          “(i) *The taxable REIT subsidiary*  
23                          *bears the expenses for the operation of the*  
24                          *facility pursuant to the management agree-*  
25                          *ment or other similar service contract.*

1           “(ii) *The taxable REIT subsidiary re-*  
 2           *ceives the revenues from the operation of*  
 3           *such facility, net of expenses for such oper-*  
 4           *ation and fees payable to the operator pur-*  
 5           *suant to such agreement or contract.*

6           “(iii) *The real estate investment trust*  
 7           *receives income from such person with re-*  
 8           *spect to another property that is attrib-*  
 9           *utable to a lease of such other property to*  
 10           *such person that was in effect as on the*  
 11           *later of—*

12                   “(I) *January 1, 1999, or*

13                   “(II) *the earliest date that any*  
 14                   *taxable REIT subsidiary of such trust*  
 15                   *entered into a management agreement*  
 16                   *or other similar service contract with*  
 17                   *such person with respect to such quali-*  
 18                   *fied lodging facility.*

19           “(C) *RENEWALS, ETC., OF EXISTING*  
 20           *LEASES.—For purposes of subparagraph*  
 21           *(B)(iii)—*

22                   “(i) *a lease shall be treated as in effect*  
 23                   *on January 1, 1999, without regard to its*  
 24                   *renewal after such date, so long as such re-*  
 25                   *newal is pursuant to the terms of such lease*

1           *as in effect on whichever of the dates under*  
2           *subparagraph (B)(iii) is the latest, and*

3           *“(ii) a lease of a property entered into*  
4           *after whichever of the dates under subpara-*  
5           *graph (B)(iii) is the latest shall be treated*  
6           *as in effect on such date if—*

7                     *“(I) on such date, a lease of such*  
8                     *property from the trust was in effect,*  
9                     *and*

10                    *“(II) under the terms of the new*  
11                    *lease, such trust receives a substan-*  
12                    *tially similar or lesser benefit in com-*  
13                    *parison to the lease referred to in sub-*  
14                    *clause (I).*

15                    *“(D) QUALIFIED LODGING FACILITY.—For*  
16                    *purposes of this paragraph—*

17                    *“(i) IN GENERAL.—The term ‘qualified*  
18                    *lodging facility’ means any lodging facility*  
19                    *unless wagering activities are conducted at*  
20                    *or in connection with such facility by any*  
21                    *person who is engaged in the business of ac-*  
22                    *cepting wagers and who is legally author-*  
23                    *ized to engage in such business at or in con-*  
24                    *nection with such facility.*

1                   “(ii) *LODGING FACILITY.*—*The term*  
 2                   *‘lodging facility’ means a hotel, motel, or*  
 3                   *other establishment more than one-half of*  
 4                   *the dwelling units in which are used on a*  
 5                   *transient basis.*

6                   “(iii) *CUSTOMARY AMENITIES AND FA-*  
 7                   *CILITIES.*—*The term ‘lodging facility’ in-*  
 8                   *cludes customary amenities and facilities*  
 9                   *operated as part of, or associated with, the*  
 10                   *lodging facility so long as such amenities*  
 11                   *and facilities are customary for other prop-*  
 12                   *erties of a comparable size and class owned*  
 13                   *by other owners unrelated to such real estate*  
 14                   *investment trust.*

15                   “(E) *OPERATE INCLUDES MANAGE.*—*Ref-*  
 16                   *erences in this paragraph to operating a prop-*  
 17                   *erty shall be treated as including a reference to*  
 18                   *managing the property.*

19                   “(F) *RELATED PERSON.*—*Persons shall be*  
 20                   *treated as related to each other if such persons*  
 21                   *are treated as a single employer under subsection*  
 22                   *(a) or (b) of section 52.”.*

23                   “(2) *CONFORMING AMENDMENT.*—*Subparagraph*  
 24                   *(B) of section 856(d)(2) is amended by inserting “ex-*  
 25                   *cept as provided in paragraph (8),” after “(B)”.*

1 **SEC. 1103. TAXABLE REIT SUBSIDIARY.**

2       (a) *IN GENERAL.*—Section 856 is amended by adding  
3 *at the end the following new subsection:*

4       “(l) *TAXABLE REIT SUBSIDIARY.*—For purposes of  
5 *this part—*

6               “(1) *IN GENERAL.*—The term ‘taxable REIT sub-  
7 *subsidiary’ means, with respect to a real estate invest-*  
8 *ment trust, a corporation (other than a real estate in-*  
9 *vestment trust) if—*

10                       “(A) *such trust directly or indirectly owns*  
11 *stock in such corporation, and*

12                       “(B) *such trust and such corporation joint-*  
13 *ly elect that such corporation shall be treated as*  
14 *a taxable REIT subsidiary of such trust for pur-*  
15 *poses of this part.*

16       *Such an election, once made, shall be irrevocable un-*  
17 *less both such trust and corporation consent to its rev-*  
18 *ocation. Such election, and any revocation thereof,*  
19 *may be made without the consent of the Secretary.*

20               “(2) *35 PERCENT OWNERSHIP IN ANOTHER TAX-*  
21 *ABLE REIT SUBSIDIARY.*—The term ‘taxable REIT  
22 *subsidiary’ includes, with respect to any real estate*  
23 *investment trust, any corporation (other than a real*  
24 *estate investment trust) with respect to which a tax-*  
25 *able REIT subsidiary of such trust owns directly or*  
26 *indirectly—*



1           “(A) securities possessing more than 35 per-  
2           cent of the total voting power of the outstanding  
3           securities of such corporation, or

4           “(B) securities having a value of more than  
5           35 percent of the total value of the outstanding  
6           securities of such corporation.

7           The preceding sentence shall not apply to a qualified  
8           REIT subsidiary (as defined in subsection (i)(2)).  
9           The rule of section 856(c)(7) shall apply for purposes  
10          of subparagraph (B).

11          “(3) EXCEPTIONS.—The term ‘taxable REIT  
12          subsidiary’ shall not include—

13               “(A) any corporation which directly or in-  
14               directly operates or manages a lodging facility  
15               or a health care facility, and

16               “(B) any corporation which directly or in-  
17               directly provides to any other person (under a  
18               franchise, license, or otherwise) rights to any  
19               brand name under which any lodging facility or  
20               health care facility is operated.

21          Subparagraph (B) shall not apply to rights provided  
22          to an eligible independent contractor to operate or  
23          manage a lodging facility if such rights are held by  
24          such corporation as a franchisee, licensee, or in a  
25          similar capacity and such lodging facility is either

1        *owned by such corporation or is leased to such cor-*  
 2        *poration from the real estate investment trust.*

3                *“(4) DEFINITIONS.—For purposes of paragraph*  
 4        *(3)—*

5                *“(A) LODGING FACILITY.—The term ‘lodg-*  
 6                *ing facility’ has the meaning given to such term*  
 7                *by paragraph (9)(D)(ii).*

8                *“(B) HEALTH CARE FACILITY.—The term*  
 9                *‘health care facility’ has the meaning given to*  
 10                *such term by subsection (e)(6)(D)(ii).”.*

11        *(b) CONFORMING AMENDMENT.—Paragraph (2) of sec-*  
 12        *tion 856(i) is amended by adding at the end the following*  
 13        *new sentence: “Such term shall not include a taxable REIT*  
 14        *subsidiary.”*

15        **SEC. 1104. LIMITATION ON EARNINGS STRIPPING.**

16        *Paragraph (3) of section 163(j) (relating to limitation*  
 17        *on deduction for interest on certain indebtedness) is amend-*  
 18        *ed by striking “and” at the end of subparagraph (A), by*  
 19        *striking the period at the end of subparagraph (B) and in-*  
 20        *serting “, and”, and by adding at the end the following*  
 21        *new subparagraph:*

22                *“(C) any interest paid or accrued (directly*  
 23                *or indirectly) by a taxable REIT subsidiary (as*  
 24                *defined in section 856(l)) of a real estate invest-*  
 25                *ment trust to such trust.”.*

1 **SEC. 1105. 100 PERCENT TAX ON IMPROPERLY ALLOCATED**  
 2 **AMOUNTS.**

3 (a) *IN GENERAL.*—Subsection (b) of section 857 (relat-  
 4 ing to method of taxation of real estate investment trusts  
 5 and holders of shares or certificates of beneficial interest)  
 6 is amended by redesignating paragraphs (7) and (8) as  
 7 paragraphs (8) and (9), respectively, and by inserting after  
 8 paragraph (6) the following new paragraph:

9 “(7) *INCOME FROM REDETERMINED RENTS, RE-*  
 10 *DETERMINED DEDUCTIONS, AND EXCESS INTEREST.*—

11 “(A) *IMPOSITION OF TAX.*—There is hereby  
 12 imposed for each taxable year of the real estate  
 13 investment trust a tax equal to 100 percent of re-  
 14 determined rents, redetermined deductions, and  
 15 excess interest.

16 “(B) *REDETERMINED RENTS.*—

17 “(i) *IN GENERAL.*—The term ‘redeter-  
 18 mined rents’ means rents from real prop-  
 19 erty (as defined in subsection 856(d)) the  
 20 amount of which would (but for subpara-  
 21 graph (E)) be reduced on distribution, ap-  
 22 portionment, or allocation under section  
 23 482 to clearly reflect income as a result of  
 24 services furnished or rendered by a taxable  
 25 REIT subsidiary of the real estate invest-  
 26 ment trust to a tenant of such trust.

1           “(ii) *EXCEPTION FOR CERTAIN SERV-*  
 2           *ICES.—Clause (i) shall not apply to*  
 3           *amounts received directly or indirectly by a*  
 4           *real estate investment trust for services de-*  
 5           *scribed in paragraph (1)(B) or (7)(C)(i) of*  
 6           *section 856(d).*

7           “(iii) *EXCEPTION FOR DE MINIMIS*  
 8           *AMOUNTS.—Clause (i) shall not apply to*  
 9           *amounts described in section 856(d)(7)(A)*  
 10           *with respect to a property to the extent such*  
 11           *amounts do not exceed the one percent*  
 12           *threshold described in section 856(d)(7)(B)*  
 13           *with respect to such property.*

14           “(iv) *EXCEPTION FOR COMPARABLY*  
 15           *PRICED SERVICES.—Clause (i) shall not*  
 16           *apply to any service rendered by a taxable*  
 17           *REIT subsidiary of a real estate investment*  
 18           *trust to a tenant of such trust if—*

19                   “(I) *such subsidiary renders a sig-*  
 20                   *nificant amount of similar services to*  
 21                   *persons other than such trust and ten-*  
 22                   *ants of such trust who are unrelated*  
 23                   *(within the meaning of section*  
 24                   *856(d)(8)(F)) to such subsidiary, trust,*  
 25                   *and tenants, but*

1                   “(II) *only to the extent the charge*  
2                   *for such service so rendered is substan-*  
3                   *tially comparable to the charge for the*  
4                   *similar services rendered to persons re-*  
5                   *ferred to in subclause (I).*

6                   “(v) *EXCEPTION FOR CERTAIN SEPA-*  
7                   *RATELY CHARGED SERVICES.—Clause (i)*  
8                   *shall not apply to any service rendered by*  
9                   *a taxable REIT subsidiary of a real estate*  
10                  *investment trust to a tenant of such trust*  
11                  *if—*

12                   “(I) *the rents paid to the trust by*  
13                   *tenants (leasing at least 25 percent of*  
14                   *the net leasable space in the trust’s*  
15                   *property) who are not receiving such*  
16                   *service from such subsidiary are sub-*  
17                   *stantially comparable to the rents paid*  
18                   *by tenants leasing comparable space*  
19                   *who are receiving such service from*  
20                   *such subsidiary, and*

21                   “(II) *the charge for such service*  
22                   *from such subsidiary is separately*  
23                   *stated.*

24                   “(vi) *EXCEPTION FOR CERTAIN SERV-*  
25                   *ICES BASED ON SUBSIDIARY’S INCOME FROM*

1           *THE SERVICES.*—*Clause (i) shall not apply*  
2           *to any service rendered by a taxable REIT*  
3           *subsidiary of a real estate investment trust*  
4           *to a tenant of such trust if the gross income*  
5           *of such subsidiary from such service is not*  
6           *less than 150 percent of such subsidiary's*  
7           *direct cost in furnishing or rendering the*  
8           *service.*

9                   “(vii) *EXCEPTIONS GRANTED BY SEC-*  
10           *RETARY.*—*The Secretary may waive the tax*  
11           *otherwise imposed by subparagraph (A) if*  
12           *the trust establishes to the satisfaction of the*  
13           *Secretary that rents charged to tenants were*  
14           *established on an arms' length basis even*  
15           *though a taxable REIT subsidiary of the*  
16           *trust provided services to such tenants.*

17                   “(C) *REDETERMINED DEDUCTIONS.*—*The*  
18           *term ‘redetermined deductions’ means deductions*  
19           *(other than redetermined rents) of a taxable*  
20           *REIT subsidiary of a real estate investment*  
21           *trust if the amount of such deductions would*  
22           *(but for subparagraph (E)) be increased on dis-*  
23           *tribution, apportionment, or allocation under*  
24           *section 482 to clearly reflect income as between*  
25           *such subsidiary and such trust.*

1           “(D) *EXCESS INTEREST*.—The term ‘excess  
2           *interest*’ means any deductions for interest pay-  
3           *ments* by a taxable REIT subsidiary of a real es-  
4           *tate investment trust* to such trust to the extent  
5           *that the interest payments are in excess of a rate*  
6           *that is commercially reasonable.*

7           “(E) *COORDINATION WITH SECTION 482*.—  
8           *The imposition of tax under subparagraph (A)*  
9           *shall be in lieu of any distribution, apportion-*  
10          *ment, or allocation under section 482.*

11          “(F) *REGULATORY AUTHORITY*.—The Sec-  
12          *retary shall prescribe such regulations as may be*  
13          *necessary or appropriate to carry out the pur-*  
14          *poses of this paragraph. Until the Secretary pre-*  
15          *scribes such regulations, real estate investment*  
16          *trusts and their taxable REIT subsidiaries may*  
17          *base their allocations on any reasonable meth-*  
18          *od.”.*

19          (b) *AMOUNT SUBJECT TO TAX NOT REQUIRED TO BE*  
20          *DISTRIBUTED*.—Subparagraph (E) of section 857(b)(2) (re-  
21          *lating to real estate investment trust taxable income*) is  
22          *amended by striking “paragraph (5)” and inserting “para-*  
23          *graphs (5) and (7)”.*

1 **SEC. 1106. EFFECTIVE DATE.**

2       (a) *IN GENERAL.*—*The amendments made by this part*  
3 *shall apply to taxable years beginning after December 31,*  
4 *2000.*

5       (b) *TRANSITIONAL RULES RELATED TO SECTION*  
6 *1101.*—

7           (1) *EXISTING ARRANGEMENTS.*—

8               (A) *IN GENERAL.*—*Except as otherwise pro-*  
9 *vided in this paragraph, the amendment made*  
10 *by section 1101 shall not apply to a real estate*  
11 *investment trust with respect to—*

12                   (i) *securities of a corporation held di-*  
13 *rectly or indirectly by such trust on July*  
14 *12, 1999,*

15                   (ii) *securities of a corporation held by*  
16 *an entity on July 12, 1999, if such trust ac-*  
17 *quires control of such entity pursuant to a*  
18 *written binding contract in effect on such*  
19 *date and at all times thereafter before such*  
20 *acquisition,*

21                   (iii) *securities received by such trust*  
22 *(or a successor) in exchange for, or with re-*  
23 *spect to, securities described in clause (i) or*  
24 *(ii) in a transaction in which gain or loss*  
25 *is not recognized, and*



1           (iv) securities acquired directly or in-  
2           directly by such trust as part of a reorga-  
3           nization (as defined in section 368(a)(1) of  
4           the Internal Revenue Code of 1986) with re-  
5           spect to such trust if such securities are de-  
6           scribed in clause (i), (ii), or (iii) with re-  
7           spect to any other real estate investment  
8           trust.

9           (B) NEW TRADE OR BUSINESS OR SUBSTAN-  
10          TIAL NEW ASSETS.—Subparagraph (A) shall  
11          cease to apply to securities of a corporation as  
12          of the first day after July 12, 1999, on which  
13          such corporation engages in a substantial new  
14          line of business, or acquires any substantial  
15          asset, other than—

16               (i) pursuant to a binding contract in  
17               effect on such date and at all times there-  
18               after before the acquisition of such asset,

19               (ii) in a transaction in which gain or  
20               loss is not recognized by reason of section  
21               1031 or 1033 of the Internal Revenue Code  
22               of 1986, or

23               (iii) in a reorganization (as so de-  
24               fined) with another corporation the securi-

1                    *ties of which are described in paragraph*  
 2                    *(1)(A) of this subsection.*

3                    *(2) TAX-FREE CONVERSION.—If—*

4                    *(A) at the time of an election for a corpora-*  
 5                    *tion to become a taxable REIT subsidiary, the*  
 6                    *amendment made by section 1101 does not apply*  
 7                    *to such corporation by reason of paragraph (1),*  
 8                    *and*

9                    *(B) such election first takes effect before*  
 10                    *January 1, 2004,*  
 11                    *such election shall be treated as a reorganization*  
 12                    *qualifying under section 368(a)(1)(A) of such Code.*

13                    ***PART II—HEALTH CARE REITS***

14                    ***SEC. 1111. HEALTH CARE REITS.***

15                    *(a) SPECIAL FORECLOSURE RULE FOR HEALTH CARE*  
 16                    *PROPERTIES.—Subsection (e) of section 856 (relating to*  
 17                    *special rules for foreclosure property) is amended by adding*  
 18                    *at the end the following new paragraph:*

19                    *“(6) SPECIAL RULE FOR QUALIFIED HEALTH*  
 20                    *CARE PROPERTIES.—For purposes of this*  
 21                    *subsection—*

22                    *“(A) ACQUISITION AT EXPIRATION OF*  
 23                    *LEASE.—The term ‘foreclosure property’ shall in-*  
 24                    *clude any qualified health care property ac-*  
 25                    *quired by a real estate investment trust as the*

1       *result of the termination of a lease of such prop-*  
2       *erty (other than a termination by reason of a de-*  
3       *fault, or the imminence of a default, on the*  
4       *lease).*

5               “(B) *GRACE PERIOD.*—*In the case of a*  
6       *qualified health care property which is fore-*  
7       *closure property solely by reason of subpara-*  
8       *graph (A), in lieu of applying paragraphs (2)*  
9       *and (3)—*

10              “(i) *the qualified health care property*  
11       *shall cease to be foreclosure property as of*  
12       *the close of the second taxable year after the*  
13       *taxable year in which such trust acquired*  
14       *such property, and*

15              “(ii) *if the real estate investment trust*  
16       *establishes to the satisfaction of the Sec-*  
17       *retary that an extension of the grace period*  
18       *in clause (i) is necessary to the orderly leas-*  
19       *ing or liquidation of the trust’s interest in*  
20       *such qualified health care property, the Sec-*  
21       *retary may grant 1 or more extensions of*  
22       *the grace period for such qualified health*  
23       *care property.*

24       *Any such extension shall not extend the grace pe-*  
25       *riod beyond the close of the 6th year after the*

1       *taxable year in which such trust acquired such*  
2       *qualified health care property.*

3               “(C) *INCOME FROM INDEPENDENT CON-*  
4       *TRACTORS.—For purposes of applying para-*  
5       *graph (4)(C) with respect to qualified health care*  
6       *property which is foreclosure property by reason*  
7       *of subparagraph (A) or paragraph (1), income*  
8       *derived or received by the trust from an inde-*  
9       *pendent contractor shall be disregarded to the ex-*  
10       *tent such income is attributable to—*

11               “(i) *any lease of property in effect on*  
12       *the date the real estate investment trust ac-*  
13       *quired the qualified health care property*  
14       *(without regard to its renewal after such*  
15       *date so long as such renewal is pursuant to*  
16       *the terms of such lease as in effect on such*  
17       *date), or*

18               “(ii) *any lease of property entered into*  
19       *after such date if—*

20               “(I) *on such date, a lease of such*  
21       *property from the trust was in effect,*  
22       *and*

23               “(II) *under the terms of the new*  
24       *lease, such trust receives a substan-*  
25       *tially similar or lesser benefit in com-*

1                    *parison to the lease referred to in sub-*  
 2                    *clause (I).*

3                    “(D) *QUALIFIED HEALTH CARE PROP-*  
 4                    *ERTY.—*

5                    “(i) *IN GENERAL.—The term ‘qualified*  
 6                    *health care property’ means any real prop-*  
 7                    *erty (including interests therein), and any*  
 8                    *personal property incident to such real*  
 9                    *property, which—*

10                    “(I) *is a health care facility, or*

11                    “(II) *is necessary or incidental to*  
 12                    *the use of a health care facility.*

13                    “(ii) *HEALTH CARE FACILITY.—For*  
 14                    *purposes of clause (i), the term ‘health care*  
 15                    *facility’ means a hospital, nursing facility,*  
 16                    *assisted living facility, congregate care fa-*  
 17                    *cility, qualified continuing care facility (as*  
 18                    *defined in section 7872(g)(4)), or other li-*  
 19                    *censed facility which extends medical or*  
 20                    *nursing or ancillary services to patients*  
 21                    *and which, immediately before the termi-*  
 22                    *nation, expiration, default, or breach of the*  
 23                    *lease of or mortgage secured by such facil-*  
 24                    *ity, was operated by a provider of such*  
 25                    *services which was eligible for participation*

1                   *in the medicare program under title XVIII*  
 2                   *of the Social Security Act with respect to*  
 3                   *such facility.”*

4           **(b) EFFECTIVE DATE.**—*The amendment made by this*  
 5 *section shall apply to taxable years beginning after Decem-*  
 6 *ber 31, 2000.*

7           **PART III—CONFORMITY WITH REGULATED**  
 8           **INVESTMENT COMPANY RULES**

9   **SEC. 1121. CONFORMITY WITH REGULATED INVESTMENT**  
 10           **COMPANY RULES.**

11           **(a) DISTRIBUTION REQUIREMENT.**—*Clauses (i) and*  
 12 *(ii) of section 857(a)(1)(A) (relating to requirements appli-*  
 13 *cable to real estate investment trusts) are each amended by*  
 14 *striking “95 percent (90 percent for taxable years beginning*  
 15 *before January 1, 1980)” and inserting “90 percent”.*

16           **(b) IMPOSITION OF TAX.**—*Clause (i) of section*  
 17 *857(b)(5)(A) (relating to imposition of tax in case of failure*  
 18 *to meet certain requirements) is amended by striking “95*  
 19 *percent (90 percent in the case of taxable years beginning*  
 20 *before January 1, 1980)” and inserting “90 percent”.*

21           **(c) EFFECTIVE DATE.**—*The amendments made by this*  
 22 *section shall apply to taxable years beginning after Decem-*  
 23 *ber 31, 2000.*

1 **PART IV—CLARIFICATION OF EXCEPTION FROM**

2 **IMPERMISSIBLE TENANT SERVICE INCOME**

3 **SEC. 1131. CLARIFICATION OF EXCEPTION FOR INDE-**

4 **PENDENT OPERATORS.**

5 (a) *IN GENERAL.*—Paragraph (3) of section 856(d)  
6 (relating to independent contractor defined) is amended by  
7 adding at the end the following flush sentence:

8 “In the event that any class of stock of either the real  
9 estate investment trust or such person is regularly  
10 traded on an established securities market, only per-  
11 sons who own, directly or indirectly, more than 5 per-  
12 cent of such class of stock shall be taken into account  
13 as owning any of the stock of such class for purposes  
14 of applying the 35 percent limitation set forth in sub-  
15 paragraph (B) (but all of the outstanding stock of  
16 such class shall be considered outstanding in order to  
17 compute the denominator for purpose of determining  
18 the applicable percentage of ownership).”

19 (b) *EFFECTIVE DATE.*—The amendment made by this  
20 section shall apply to taxable years beginning after Decem-  
21 ber 31, 2000.

**PART V—MODIFICATION OF EARNINGS AND  
PROFITS RULES**

**SEC. 1141. MODIFICATION OF EARNINGS AND PROFITS  
RULES.**

*(a) RULES FOR DETERMINING WHETHER REGULATED  
INVESTMENT COMPANY HAS EARNINGS AND PROFITS FROM  
NON-RIC YEAR.—Subsection (c) of section 852 is amended  
by adding at the end the following new paragraph:*

*“(3) DISTRIBUTIONS TO MEET REQUIREMENTS  
OF SUBSECTION (a)(2)(B).—Any distribution which  
is made in order to comply with the requirements of  
subsection (a)(2)(B)—*

*“(A) shall be treated for purposes of this  
subsection and subsection (a)(2)(B) as made  
from the earliest earnings and profits accumu-  
lated in any taxable year to which the provisions  
of this part did not apply rather than the most  
recently accumulated earnings and profits, and*

*“(B) to the extent treated under subpara-  
graph (A) as made from accumulated earnings  
and profits, shall not be treated as a distribution  
for purposes of subsection (b)(2)(D) and section  
855.”.*

*(b) CLARIFICATION OF APPLICATION OF REIT SPILL-  
OVER DIVIDEND RULES TO DISTRIBUTIONS TO MEET  
QUALIFICATION REQUIREMENT.—Subparagraph (B) of sec-*



1 *tion 857(d)(3) is amended by inserting before the period*  
 2 *“and section 858”.*

3 *(c) APPLICATION OF DEFICIENCY DIVIDEND PROCE-*  
 4 *DURES.—Paragraph (1) of section 852(e) is amended by*  
 5 *adding at the end the following new sentence: “If the deter-*  
 6 *mination under subparagraph (A) is solely as a result of*  
 7 *the failure to meet the requirements of subsection (a)(2), the*  
 8 *preceding sentence shall also apply for purposes of applying*  
 9 *subsection (a)(2) to the non-RIC year.”*

10 *(d) EFFECTIVE DATE.—The amendments made by this*  
 11 *section shall apply to distributions after December 31, 2000.*

12 **PART VI—STUDY RELATING TO TAXABLE REIT**

13 **SUBSIDIARIES**

14 **SEC. 1151. STUDY RELATING TO TAXABLE REIT SUBSIDI-**  
 15 **ARIES.**

16 *The Commissioner of the Internal Revenue shall con-*  
 17 *duct a study to determine how many taxable REIT subsidi-*  
 18 *aries are in existence and the aggregate amount of taxes*  
 19 *paid by such subsidiaries. The Secretary shall submit a re-*  
 20 *port to the Congress describing the results of such study.*

1 ***Subtitle B—Modification of At-Risk***  
 2 ***Rules for Publicly Traded Non-***  
 3 ***recourse Debt***

4 ***SEC. 1161. TREATMENT UNDER AT-RISK RULES OF PUB-***  
 5 ***LICLY TRADED NONRECOURSE DEBT.***

6 (a) *IN GENERAL.*—Subparagraph (A) of section  
 7 465(b)(6) (relating to qualified nonrecourse financing treat-  
 8 ed as amount at risk) is amended by striking “share of”  
 9 and all that follows and inserting “share of—

10 “(i) any qualified nonrecourse financ-  
 11 ing which is secured by real property used  
 12 in such activity, and

13 “(ii) any other financing which—

14 “(I) would (but for subparagraph  
 15 (B)(ii)) be qualified nonrecourse fi-  
 16 nancing,

17 “(II) is qualified publicly traded  
 18 debt, and

19 “(III) is not borrowed by the tax-  
 20 payer from a person described in sub-  
 21 clause (I), (II), or (III) of section  
 22 49(a)(1)(D)(iv).”

23 (b) *QUALIFIED PUBLICLY TRADED DEBT.*—Paragraph  
 24 (6) of section 465(b) is amended by adding at the end the  
 25 following new subparagraph:

1                   “(F) QUALIFIED PUBLICLY TRADED  
 2                   DEBT.—For purposes of subparagraph (A), the  
 3                   term ‘qualified publicly traded debt’ means any  
 4                   debt instrument which is readily tradable on an  
 5                   established securities market. Such term shall not  
 6                   include any debt instrument which has a yield  
 7                   to maturity which equals or exceeds the limita-  
 8                   tion in section 163(i)(1)(B).”

9                   (c) EFFECTIVE DATE.—The amendments made by this  
 10                  section shall apply to debt instruments issued after Decem-  
 11                  ber 31, 1999.

12                  **Subtitle C—Treatment of Construc-**  
 13                  **tion Allowances and Certain**  
 14                  **Contributions to Capital of Re-**  
 15                  **tailers**

16                  **SEC. 1171. EXCLUSION FROM GROSS INCOME OF QUALIFIED**  
 17                  **LESSEE CONSTRUCTION ALLOWANCES NOT**  
 18                  **LIMITED FOR CERTAIN RETAILERS TO**  
 19                  **SHORT-TERM LEASES.**

20                  (a) IN GENERAL.—Subsection (a) section 110 (relating  
 21                  to qualified lessee construction allowances for short-term  
 22                  leases) is amended by adding at the end the following new  
 23                  sentence: “Paragraph (1) shall not apply if the lessee is a  
 24                  qualified retail business (as defined by section 118(d)(3)

1 *without regard to the proximity requirement in subpara-*  
 2 *graph (A) thereof).”.*

3 *(b) EFFECTIVE DATE.—The amendment made by this*  
 4 *section shall apply to leases entered into after December 31,*  
 5 *1999.*

6 **SEC. 1172. EXCLUSION FROM GROSS INCOME FOR CERTAIN**  
 7 **CONTRIBUTIONS TO THE CAPITAL OF CER-**  
 8 **TAIN RETAILERS.**

9 *(a) IN GENERAL.—Section 118 (relating to contribu-*  
 10 *tions to the capital of a corporation) is amended by redesign-*  
 11 *ating subsections (d) and (e) as subsections (e) and (f),*  
 12 *respectively, and by inserting after subsection (c) the fol-*  
 13 *lowing new subsection:*

14 *“(d) SAFE HARBOR FOR CONTRIBUTIONS TO CERTAIN*  
 15 *RETAILERS.—*

16 *“(1) GENERAL RULE.—For purposes of this sec-*  
 17 *tion, the term ‘contribution to the capital of the tax-*  
 18 *payer’ includes any amount of money or other prop-*  
 19 *erty received by the taxpayer if—*

20 *“(A) the taxpayer has entered into an*  
 21 *agreement to operate (or cause to be operated) a*  
 22 *qualified retail business at a particular location*  
 23 *for a period of at least 15 years,*

24 *“(B)(i) immediately after the receipt of such*  
 25 *money or other property, the taxpayer owns the*

1           *land and the structure to be used by the taxpayer*  
2           *in carrying on a qualified retail business at such*  
3           *location, or*

4           “(ii) *the taxpayer uses such amount to ac-*  
5           *quire ownership of at least such land and struc-*  
6           *ture,*

7           “(C) *such amount meets the requirements of*  
8           *the expenditure rule of paragraph (2), and*

9           “(D) *the contributor of such amount does*  
10          *not hold a beneficial interest in any property lo-*  
11          *cated on the premises of such qualified retail*  
12          *business other than de minimis amounts of prop-*  
13          *erty associated with the operation of property*  
14          *adjacent to such premises.*

15          “(2) *EXPENDITURE RULE.—An amount meets*  
16          *the requirements of this paragraph if—*

17               “(A) *an amount equal to such amount is*  
18               *expended for the acquisition of land or for acqui-*  
19               *sition or construction of other property described*  
20               *in section 1231(b)—*

21                       “(i) *which was the purpose motivating*  
22                       *the contribution, and*

23                       “(ii) *which is used predominantly in a*  
24                       *qualified retail business at the location re-*  
25                       *ferred to in paragraph (1)(A),*

1           “(B) the expenditure referred to in subpara-  
2 graph (A) occurs before the end of the second tax-  
3 able year after the year in which such amount  
4 was received, and

5           “(C) accurate records are kept of the  
6 amounts contributed and expenditures made on  
7 the basis of the project for which the contribution  
8 was made and on the basis of the year of the  
9 contribution expenditure.

10          “(3) DEFINITION OF QUALIFIED RETAIL BUSI-  
11 NESS.—

12           “(A) IN GENERAL.—Except as provided in  
13 subparagraph (B), the term ‘qualified retail  
14 business’ means a trade or business of selling  
15 tangible personal property to the general public  
16 if the premises on which such trade or business  
17 is conducted is in close proximity to property  
18 that the contributor of the amount referred to in  
19 paragraph (1) is developing or operating for  
20 profit (or, in the case of a contributor which is  
21 a governmental entity, is attempting to re-  
22 vitalize).

23           “(B) SERVICES.—A trade or business shall  
24 not fail to be treated as a qualified retail busi-  
25 ness by reason of sales of services if such sales

1       are incident to the sale of tangible personal  
2       property or if the services are de minimis in  
3       amount.

4       “(4) *SPECIAL RULES.*—

5               “(A) *LEASES.*—For purposes of paragraph  
6       (1)(B)(i), property shall be treated as owned by  
7       the taxpayer if the taxpayer is the lessee of such  
8       property under a lease having a term of at least  
9       30 years and on which only nominal rent is re-  
10      quired.

11              “(B) *CONTROLLED GROUPS.*—For purposes  
12      of this subsection, all persons treated as a single  
13      employer under subsection (a) or (b) of section  
14      52 shall be treated as 1 person.

15              “(5) *DISALLOWANCE OF DEDUCTIONS AND CRED-*  
16      *ITS; ADJUSTED BASIS.*—Notwithstanding any other  
17      provision of this subtitle, no deduction or credit shall  
18      be allowed for, or by reason of, any amount received  
19      by the taxpayer which constitutes a contribution to  
20      capital to which this subsection applies. The adjusted  
21      basis of any property acquired with the contributions  
22      to which this subsection applies shall be reduced by  
23      the amount of the contributions to which this sub-  
24      section applies.

1           “(6) *REGULATIONS.*—*The Secretary shall pre-*  
2       *scribe such regulations are appropriate to prevent the*  
3       *abuse of the purposes of the subsection, including reg-*  
4       *ulations which allocate income and deductions (or ad-*  
5       *just the amount excludable under this subsection) in*  
6       *cases in which—*

7           “(A) *payments in excess of fair market*  
8       *value are paid to the contributor by the tax-*  
9       *payer, or*

10          “(B) *the contributor and the taxpayer are*  
11       *related parties.*”

12       (b) *CONFORMING AMENDMENT.*—*Subsection (e) of sec-*  
13       *tion 118 (as redesignated by subsection (a)) is amended by*  
14       *adding at the end the following flush sentence:*

15       *“Rules similar to the rules of the preceding sentence shall*  
16       *apply to any amount treated as a contribution to the cap-*  
17       *ital of the taxpayer under subsection (d).”*

18       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
19       *section shall apply to amounts received after December 31,*  
20       *1999.*



1                   ***TITLE XII—PROVISIONS***  
 2                   ***RELATING TO PENSIONS***  
 3           ***Subtitle A—Expanding Coverage***

4   ***SEC. 1201. INCREASE IN BENEFIT AND CONTRIBUTION LIM-***  
 5                   ***ITS.***

6           *(a) DEFINED BENEFIT PLANS.—*

7                   *(1) DOLLAR LIMIT.—*

8                           *(A) Subparagraph (A) of section 415(b)(1)*  
 9                           *(relating to limitation for defined benefit plans)*  
 10                           *is amended by striking “\$90,000” and inserting*  
 11                           *“\$160,000”.*

12                           *(B) Subparagraphs (C) and (D) of section*  
 13                           *415(b)(2) are each amended by striking “\$90,000”*  
 14                           *each place it appears in the headings and the text*  
 15                           *and inserting “\$160,000”.*

16                           *(C) Paragraph (7) of section 415(b) (relating to*  
 17                           *benefits under certain collectively bargained plans) is*  
 18                           *amended by striking “the greater of \$68,212 or one-*  
 19                           *half the amount otherwise applicable for such year*  
 20                           *under paragraph (1)(A) for “\$90,000’” and inserting*  
 21                           *“one-half the amount otherwise applicable for such*  
 22                           *year under paragraph (1)(A) for “\$160,000’”.*

23                           *(2) LIMIT REDUCED WHEN BENEFIT BEGINS BE-*  
 24                           *FORE AGE 62.—Subparagraph (C) of section 415(b)(2)*  
 25                           *is amended by striking “the social security retirement*

1       *age” each place it appears in the heading and text*  
 2       *and inserting “age 62”.*

3               (3) *LIMIT INCREASED WHEN BENEFIT BEGINS*  
 4       *AFTER AGE 65.—Subparagraph (D) of section*  
 5       *415(b)(2) is amended by striking “the social security*  
 6       *retirement age” each place it appears in the heading*  
 7       *and text and inserting “age 65”.*

8               (4) *COST-OF-LIVING ADJUSTMENTS.—Subsection*  
 9       *(d) of section 415 (related to cost-of-living adjust-*  
 10       *ments) is amended—*

11               (A) *in paragraph (1)(A) by striking*  
 12       *“\$90,000” and inserting “\$160,000”, and*

13               (B) *in paragraph (3)(A)—*

14                       (i) *by striking “\$90,000” in the head-*  
 15       *ing and inserting “\$160,000”, and*

16                       (ii) *by striking “October 1, 1986” and*  
 17       *inserting “July 1, 2000”.*

18               (5) *CONFORMING AMENDMENT.—Section*  
 19       *415(b)(2) is amended by striking subparagraph (F).*

20       (b) *DEFINED CONTRIBUTION PLANS.—*

21               (1) *DOLLAR LIMIT.—Subparagraph (A) of sec-*  
 22       *tion 415(c)(1) (relating to limitation for defined con-*  
 23       *tribution plans) is amended by striking “\$30,000”*  
 24       *and inserting “\$40,000”.*

1           (2) *COST-OF-LIVING ADJUSTMENTS.*—*Subsection*  
 2           *(d) of section 415 (related to cost-of-living adjust-*  
 3           *ments) is amended—*

4                   (A) *in paragraph (1)(C) by striking*  
 5                   *“\$30,000” and inserting “\$40,000”, and*

6                   (B) *in paragraph (3)(D)—*

7                           (i) *by striking “\$30,000” in the head-*  
 8                           *ing and inserting “\$40,000”, and*

9                           (ii) *by striking “October 1, 1993” and*  
 10                          *inserting “July 1, 2000”.*

11       (c) *QUALIFIED TRUSTS.*—

12               (1) *COMPENSATION LIMIT.*—*Sections 401(a)(17),*  
 13               *404(l), 408(k), and 505(b)(7) are each amended by*  
 14               *striking “\$150,000” each place it appears and insert-*  
 15               *ing “\$200,000”.*

16               (2) *BASE PERIOD AND ROUNDING OF COST-OF-*  
 17               *LIVING ADJUSTMENT.*—*Subparagraph (B) of section*  
 18               *401(a)(17) is amended—*

19                   (A) *by striking “October 1, 1993” and in-*  
 20                   *serting “July 1, 2000”, and*

21                   (B) *by striking “\$10,000” both places it ap-*  
 22                   *pears and inserting “\$5,000”.*

23       (d) *ELECTIVE DEFERRALS.*—

(1) *IN GENERAL.*—Paragraph (1) of section 402(g) (relating to limitation on exclusion for elective deferrals) is amended to read as follows:

“(1) *IN GENERAL.*—

“(A) *LIMITATION.*—Notwithstanding subsections (e)(3) and (h)(1)(B), the elective deferrals of any individual for any taxable year shall be included in such individual’s gross income to the extent the amount of such deferrals for the taxable year exceeds the applicable dollar amount.

“(B) *APPLICABLE DOLLAR AMOUNT.*—For purposes of subparagraph (A), the applicable dollar amount shall be the amount determined in accordance with the following table:

<b>“Taxable year:</b>	<b>Applicable dollar amount:</b>
2001 .....	\$11,000
2002 .....	\$12,000
2003 .....	\$13,000
2004 .....	\$14,000
2005 or thereafter .....	\$15,000.”.

(2) *COST-OF-LIVING ADJUSTMENT.*—Paragraph (5) of section 402(g) is amended to read as follows:

“(5) *COST-OF-LIVING ADJUSTMENT.*—In the case of taxable years beginning after December 31, 2005, the Secretary shall adjust the \$15,000 amount under paragraph (1)(B) at the same time and in the same manner as under section 415(d); except that the base

1      *period shall be the calendar quarter beginning July 1,*  
 2      *2004, and any increase under this paragraph which*  
 3      *is not a multiple of \$500 shall be rounded to the next*  
 4      *lowest multiple of \$500.”.*

5            (3) *CONFORMING AMENDMENTS.—*

6            (A) *Section 402(g) (relating to limitation*  
 7            *on exclusion for elective deferrals), as amended*  
 8            *by paragraphs (1) and (2), is further amended*  
 9            *by striking paragraph (4) and redesignating*  
 10           *paragraphs (5), (6), (7), (8), and (9) as para-*  
 11           *graphs (4), (5), (6), (7), and (8), respectively.*

12           (B) *Paragraph (2) of section 457(c) is*  
 13           *amended by striking “402(g)(8)(A)(iii)” and in-*  
 14           *serting “402(g)(7)(A)(iii)”.*

15           (C) *Clause (iii) of section 501(c)(18)(D) is*  
 16           *amended by striking “(other than paragraph (4)*  
 17           *thereof)”.*

18           (e) *DEFERRED COMPENSATION PLANS OF STATE AND*  
 19           *LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZA-*  
 20           *TIONS.—*

21           (1) *IN GENERAL.—Section 457 (relating to de-*  
 22           *ferred compensation plans of State and local govern-*  
 23           *ments and tax-exempt organizations) is amended—*

1           (A) in subsections (b)(2)(A) and (c)(1) by  
 2           striking “\$7,500” each place it appears and in-  
 3           serting “the applicable dollar amount”, and

4           (B) in subsection (b)(3)(A) by striking  
 5           “\$15,000” and inserting “twice the dollar  
 6           amount in effect under subsection (b)(2)(A)”.

7           (2) *APPLICABLE DOLLAR AMOUNT; COST-OF-LIV-*  
 8           *ING ADJUSTMENT.*—Paragraph (15) of section 457(e)  
 9           is amended to read as follows:

10           “(15) *APPLICABLE DOLLAR AMOUNT.*—

11           “(A) *IN GENERAL.*—The applicable dollar  
 12           amount shall be the amount determined in ac-  
 13           cordance with the following table:

<b>“Taxable year:</b>	<b>Applicable dollar amount:</b>
2001 .....	\$11,000
2002 .....	\$12,000
2003 .....	\$13,000
2004 .....	\$14,000
2005 or thereafter .....	\$15,000.

14           “(B) *COST-OF-LIVING ADJUSTMENTS.*—In  
 15           the case of taxable years beginning after Decem-  
 16           ber 31, 2005, the Secretary shall adjust the  
 17           \$15,000 amount specified in the table in sub-  
 18           paragraph (A) at the same time and in the same  
 19           manner as under section 415(d), except that the  
 20           base period shall be the calendar quarter begin-  
 21           ning July 1, 2004, and any increase under this

1           *paragraph which is not a multiple of \$500 shall*  
 2           *be rounded to the next lowest multiple of \$500.”.*

3           (f) *SIMPLE RETIREMENT ACCOUNTS.—*

4           (1) *LIMITATION.—*Clause (ii) of section  
 5           408(p)(2)(A) (relating to general rule for qualified  
 6           salary reduction arrangement) is amended by striking  
 7           “\$6,000” and inserting “the applicable dollar  
 8           amount”.

9           (2) *APPLICABLE DOLLAR AMOUNT.—*Subpara-  
 10          graph (E) of 408(p)(2) is amended to read as follows:

11                   “(E) *APPLICABLE DOLLAR AMOUNT; COST-*  
 12                   *OF-LIVING ADJUSTMENT.—*

13                           “(i) *IN GENERAL.—*For purposes of  
 14                           subparagraph (A)(ii), the applicable dollar  
 15                           amount shall be the amount determined in  
 16                           accordance with the following table:

<b>“Year:</b>	<b>Applicable dollar amount:</b>
2001 .....	\$7,000
2002 .....	\$8,000
2003 .....	\$9,000
2004 or thereafter .....	\$10,000.

17                           “(ii) *COST-OF-LIVING ADJUSTMENT.—*

18                           *In the case of a year beginning after Decem-*  
 19                           *ber 31, 2004, the Secretary shall adjust the*  
 20                           *\$10,000 amount under clause (i) at the*  
 21                           *same time and in the same manner as*  
 22                           *under section 415(d), except that the base*  
 23                           *period taken into account shall be the cal-*

1            *endar quarter beginning July 1, 2003, and*  
 2            *any increase under this subparagraph*  
 3            *which is not a multiple of \$500 shall be*  
 4            *rounded to the next lower multiple of*  
 5            *\$500.”.*

6            *(3) CONFORMING AMENDMENTS.—*

7            *(A) Clause (I) of section 401(k)(11)(B)(i) is*  
 8            *amended by striking “\$6,000” and inserting “the*  
 9            *amount in effect under section 408(p)(2)(A)(ii)”.*

10           *(B) Section 401(k)(11) is amended by strik-*  
 11           *ing subparagraph (E).*

12           *(g) ROUNDING RULE RELATING TO DEFINED BENEFIT*  
 13 *PLANS AND DEFINED CONTRIBUTION PLANS.—Paragraph*  
 14 *(4) of section 415(d) is amended to read as follows:*

15           *“(4) ROUNDING.—*

16           *“(A) \$160,000 AMOUNT.—Any increase*  
 17           *under subparagraph (A) of paragraph (1) which*  
 18           *is not a multiple of \$5,000 shall be rounded to*  
 19           *the next lowest multiple of \$5,000.*

20           *“(B) \$40,000 AMOUNT.—Any increase*  
 21           *under subparagraph (C) of paragraph (1) which*  
 22           *is not a multiple of \$1,000 shall be rounded to*  
 23           *the next lowest multiple of \$1,000.”.*

24           *(h) EFFECTIVE DATE.—*



1           (1) *IN GENERAL.*—*The amendments made by*  
 2           *this section shall apply to years beginning after De-*  
 3           *cember 31, 2000.*

4           (2) *COLLECTIVE BARGAINING AGREEMENTS.*—*In*  
 5           *the case of a plan maintained pursuant to 1 or more*  
 6           *collective bargaining agreements between employee*  
 7           *representatives and 1 or more employers ratified by*  
 8           *the date of enactment of this Act, the amendments*  
 9           *made by this section shall not apply to contributions*  
 10          *or benefits pursuant to any such agreement for years*  
 11          *beginning before the earlier of—*

12                   (A) *the later of—*

13                           (i) *the date on which the last of such*  
 14                           *collective bargaining agreements terminates*  
 15                           *(determined without regard to any exten-*  
 16                           *sion thereof on or after such date of enact-*  
 17                           *ment), or*

18                           (ii) *January 1, 2001, or*

19                   (B) *January 1, 2005.*

20 **SEC. 1202. PLAN LOANS FOR SUBCHAPTER S OWNERS,**  
 21 **PARTNERS, AND SOLE PROPRIETORS.**

22           (a) *IN GENERAL.*—*Subparagraph (B) of section*  
 23           *4975(f)(6) (relating to exemptions not to apply to certain*  
 24           *transactions) is amended by adding at the end the following*  
 25           *new clause:*

1                   “(iii) *LOAN EXCEPTION.*—For purposes  
 2                   of subparagraph (A)(i), the term ‘owner-em-  
 3                   ployee’ shall only include a person described  
 4                   in subclause (II) or (III) of clause (i).”

5           (b) *EFFECTIVE DATE.*—The amendment made by this  
 6 section shall apply to loans made after December 31, 2000.

7 **SEC. 1203. MODIFICATION OF TOP-HEAVY RULES.**

8           (a) *SIMPLIFICATION OF DEFINITION OF KEY EM-*  
 9 *PLOYEE.*—

10           (1) *IN GENERAL.*—Section 416(i)(1)(A) (defining  
 11 *key employee*) is amended—

12                   (A) by striking “or any of the 4 preceding  
 13 *plan years*” in the matter preceding clause (i),

14                   (B) by striking clause (i) and inserting the  
 15 *following:*

16                           “(i) an officer of the employer having  
 17                           an annual compensation greater than  
 18                           \$150,000,”

19                   (C) by striking clause (ii) and redesign-  
 20 *ating clauses (iii) and (iv) as clauses (ii) and*  
 21 *(iii), respectively, and*

22                   (D) by striking the second sentence in the  
 23 *matter following clause (iii), as redesignated by*  
 24 *subparagraph (C).*

1           (2)       *CONFORMING        AMENDMENT.—Section*  
 2       *416(i)(1)(B)(iii) is amended by striking “and sub-*  
 3       *paragraph (A)(ii)”.*

4       *(b) MATCHING CONTRIBUTIONS TAKEN INTO ACCOUNT*  
 5       *FOR MINIMUM CONTRIBUTION REQUIREMENTS.—Section*  
 6       *416(c)(2)(A) (relating to defined contribution plans) is*  
 7       *amended by adding at the end the following: “Employer*  
 8       *matching contributions (as defined in section*  
 9       *401(m)(4)(A)) shall be taken into account for purposes of*  
 10       *this subparagraph.”.*

11       *(c) DISTRIBUTIONS DURING LAST YEAR BEFORE DE-*  
 12       *TERMINATION DATE TAKEN INTO ACCOUNT.—*

13           (1) *IN GENERAL.—Paragraph (3) of section*  
 14       *416(g) is amended to read as follows:*

15           “*(3) DISTRIBUTIONS DURING LAST YEAR BEFORE*  
 16       *DETERMINATION DATE TAKEN INTO ACCOUNT.—*

17                   “*(A) IN GENERAL.—For purposes of*  
 18       *determining—*

19                           “*(i) the present value of the cumulative*  
 20       *accrued benefit for any employee, or*

21                           “*(ii) the amount of the account of any*  
 22       *employee,*

23       *such present value or amount shall be increased*  
 24       *by the aggregate distributions made with respect*  
 25       *to such employee under the plan during the 1-*

1           year period ending on the determination date.  
 2           The preceding sentence shall also apply to dis-  
 3           tributions under a terminated plan which if it  
 4           had not been terminated would have been re-  
 5           quired to be included in an aggregation group.

6                   “(B) 5-YEAR PERIOD IN CASE OF IN-SERV-  
 7           ICE DISTRIBUTION.—In the case of any distribu-  
 8           tion made for a reason other than separation  
 9           from service, death, or disability, subparagraph  
 10          (A) shall be applied by substituting ‘5-year pe-  
 11          riod’ for ‘1-year period’.”.

12                   (2) BENEFITS NOT TAKEN INTO ACCOUNT.—Sub-  
 13          paragraph (E) of section 416(g)(4) is amended—

14                   (A) by striking “LAST 5 YEARS” in the  
 15           heading and inserting “LAST YEAR BEFORE DE-  
 16           TERMINATION DATE”, and

17                   (B) by striking “5-year period” and insert-  
 18           ing “1-year period”.

19                   (d) DEFINITION OF TOP-HEAVY PLANS.—Paragraph  
 20          (4) of section 416(g) (relating to other special rules for top-  
 21          heavy plans) is amended by adding at the end the following  
 22          new subparagraph:

23                   “(H) CASH OR DEFERRED ARRANGEMENTS  
 24           USING ALTERNATIVE METHODS OF MEETING NON-  
 25           DISCRIMINATION REQUIREMENTS.—The term

1       ‘top-heavy plan’ shall not include a plan which  
2       consists solely of—

3               “(i) a cash or deferred arrangement  
4               which meets the requirements of section  
5               401(k)(12), and

6               “(ii) matching contributions with re-  
7               spect to which the requirements of section  
8               401(m)(11) are met.

9       If, but for this subparagraph, a plan would be  
10      treated as a top-heavy plan because it is a mem-  
11      ber of an aggregation group which is a top-heavy  
12      group, contributions under the plan may be  
13      taken into account in determining whether any  
14      other plan in the group meets the requirements  
15      of subsection (c)(2).”

16      (e) *FROZEN PLAN EXEMPT FROM MINIMUM BENEFIT*

17      *REQUIREMENT.*—Subparagraph (C) of section 416(c)(1)  
18      (relating to defined benefit plans) is amended—

19               (A) in clause (i), by striking “clause (ii)”  
20               and inserting “clause (ii) or (iii)”, and

21               (B) by adding at the end the following:

22               “(iii)   *EXCEPTION FOR FROZEN*  
23               *PLAN.*—For purposes of determining an em-  
24               ployee’s years of service with the employer,  
25               any service with the employer shall be dis-

1                   regarded to the extent that such service oc-  
 2                   curs during a plan year when the plan ben-  
 3                   efits (within the meaning of section 410(b))  
 4                   no employee or former employee.”.

5           (f) *EFFECTIVE DATE.*—The amendments made by this  
 6 section shall apply to years beginning after December 31,  
 7 2000.

8   **SEC. 1204. ELECTIVE DEFERRALS NOT TAKEN INTO AC-**  
 9                   **COUNT FOR PURPOSES OF DEDUCTION LIM-**  
 10                  **ITS.**

11           (a) *IN GENERAL.*—Section 404 (relating to deduction  
 12 for contributions of an employer to an employees’ trust or  
 13 annuity plan and compensation under a deferred payment  
 14 plan) is amended by adding at the end the following new  
 15 subsection:

16           “(n) *ELECTIVE DEFERRALS NOT TAKEN INTO AC-*  
 17 *COUNT FOR PURPOSES OF DEDUCTION LIMITS.*—Elective  
 18 deferrals (as defined in section 402(g)(3)) shall not be sub-  
 19 ject to any limitation contained in paragraph (3), (7), or  
 20 (9) of subsection (a), and such elective deferrals shall not  
 21 be taken into account in applying any such limitation to  
 22 any other contributions.”.

23           (b) *EFFECTIVE DATE.*—The amendment made by this  
 24 section shall apply to years beginning after December 31,  
 25 2000.

1 **SEC. 1205. REDUCED PBGC PREMIUM FOR NEW PLANS OF**  
 2 **SMALL EMPLOYERS.**

3 (a) *IN GENERAL.*—Subparagraph (A) of section  
 4 4006(a)(3) of the Employee Retirement Income Security  
 5 Act of 1974 (29 U.S.C. 1306(a)(3)(A)) is amended—

6 (1) in clause (i), by inserting “other than a new  
 7 single-employer plan (as defined in subparagraph  
 8 (F)) maintained by a small employer (as so de-  
 9 fined),” after “single-employer plan,”

10 (2) in clause (iii), by striking the period at the  
 11 end and inserting “, and”, and

12 (3) by adding at the end the following new  
 13 clause:

14 “(iv) in the case of a new single-employer plan  
 15 (as defined in subparagraph (F)) maintained by a  
 16 small employer (as so defined) for the plan year, \$5  
 17 for each individual who is a participant in such plan  
 18 during the plan year.”.

19 (b) *DEFINITION OF NEW SINGLE-EMPLOYER PLAN.*—  
 20 Section 4006(a)(3) of the Employee Retirement Income Se-  
 21 curity Act of 1974 (29 U.S.C. 1306(a)(3)) is amended by  
 22 adding at the end the following new subparagraph:

23 “(F)(i) For purposes of this paragraph, a single-em-  
 24 ployer plan maintained by a contributing sponsor shall be  
 25 treated as a new single-employer plan for each of its first  
 26 5 plan years if, during the 36-month period ending on the

1 *date of the adoption of such plan, the sponsor or any mem-*  
 2 *ber of such sponsor's controlled group (or any predecessor*  
 3 *of either) had not established or maintained a plan to which*  
 4 *this title applies with respect to which benefits were accrued*  
 5 *for substantially the same employees as are in the new sin-*  
 6 *gle-employer plan.*

7       “(ii)(I) *For purposes of this paragraph, the term*  
 8 *‘small employer’ means an employer which on the first day*  
 9 *of any plan year has, in aggregation with all members of*  
 10 *the controlled group of such employer, 100 or fewer employ-*  
 11 *ees.*

12       “(II) *In the case of a plan maintained by 2 or more*  
 13 *contributing sponsors that are not part of the same con-*  
 14 *trolled group, the employees of all contributing sponsors and*  
 15 *controlled groups of such sponsors shall be aggregated for*  
 16 *purposes of determining whether any contributing sponsor*  
 17 *is a small employer.”.*

18       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 19 *section shall apply to plans established after December 31,*  
 20 *2000.*

21 **SEC. 1206. REDUCTION OF ADDITIONAL PBGC PREMIUM**  
 22 **FOR NEW AND SMALL PLANS.**

23       (a) *NEW PLANS.*—*Subparagraph (E) of section*  
 24 *4006(a)(3) of the Employee Retirement Income Security*



1 *Act of 1974 (29 U.S.C. 1306(a)(3)(E)) is amended by add-*  
2 *ing at the end the following new clause:*

3       “(v) *In the case of a new defined benefit plan, the*  
4 *amount determined under clause (ii) for any plan year*  
5 *shall be an amount equal to the product of the amount de-*  
6 *termined under clause (ii) and the applicable percentage.*  
7 *For purposes of this clause, the term ‘applicable percentage’*  
8 *means—*

9               “(I) 0 percent, for the first plan year.

10              “(II) 20 percent, for the second plan year.

11              “(III) 40 percent, for the third plan year.

12              “(IV) 60 percent, for the fourth plan year.

13              “(V) 80 percent, for the fifth plan year.

14 *For purposes of this clause, a defined benefit plan (as de-*  
15 *finied in section 3(35)) maintained by a contributing spon-*  
16 *sor shall be treated as a new defined benefit plan for its*  
17 *first 5 plan years if, during the 36-month period ending*  
18 *on the date of the adoption of the plan, the sponsor and*  
19 *each member of any controlled group including the sponsor*  
20 *(or any predecessor of either) did not establish or maintain*  
21 *a plan to which this title applies with respect to which bene-*  
22 *fits were accrued for substantially the same employees as*  
23 *are in the new plan.”.*

1       (b) *SMALL PLANS.*—Paragraph (3) of section 4006(a)  
2   of the *Employee Retirement Income Security Act of 1974*  
3   (29 U.S.C. 1306(a)) is amended—

4           (1) in subparagraph (E)(i) by striking “The”  
5       and inserting “Except as provided in subparagraph  
6       (G), the”, and

7           (2) by inserting after subparagraph (F) the fol-  
8       lowing new subparagraph:

9       “(G)(i) *In the case of an employer who has 25 or fewer*  
10   *employees on the first day of the plan year, the additional*  
11   *premium determined under subparagraph (E) for each par-*  
12   *ticipant shall not exceed \$5 multiplied by the number of*  
13   *participants in the plan as of the close of the preceding plan*  
14   *year.*

15       “(ii) *For purposes of clause (i), whether an employer*  
16   *has 25 or fewer employees on the first day of the plan year*  
17   *is determined taking into consideration all of the employees*  
18   *of all members of the contributing sponsor’s controlled*  
19   *group. In the case of a plan maintained by 2 or more con-*  
20   *tributing sponsors, the employees of all contributing spon-*  
21   *sors and their controlled groups shall be aggregated for pur-*  
22   *poses of determining whether 25-or-fewer-employees limita-*  
23   *tion has been satisfied.”.*

24       (c) *EFFECTIVE DATES.*—

1           (1) *SUBSECTION (a).*—*The amendments made by*  
 2           *subsection (a) shall apply to plans established after*  
 3           *December 31, 2000.*

4           (2) *SUBSECTION (b).*—*The amendments made by*  
 5           *subsection (b) shall apply to plan years beginning*  
 6           *after December 31, 2000.*

7   **SEC. 1207. REPEAL OF COORDINATION REQUIREMENTS FOR**  
 8                           **DEFERRED COMPENSATION PLANS OF STATE**  
 9                           **AND LOCAL GOVERNMENTS AND TAX-EXEMPT**  
 10                          **ORGANIZATIONS.**

11          (a) *IN GENERAL.*—*Subsection (c) of section 457 (relat-*  
 12          *ing to deferred compensation plans of State and local gov-*  
 13          *ernments and tax-exempt organizations), as amended by*  
 14          *section 1201(e), is amended to read as follows:*

15          “(c) *LIMITATION.*—*The maximum amount of the com-*  
 16          *pensation of any one individual which may be deferred*  
 17          *under subsection (a) during any taxable year shall not ex-*  
 18          *ceed the amount in effect under subsection (b)(2)(A) (as*  
 19          *modified by any adjustment provided under subsection*  
 20          *(b)(3)).”.*

21          (b) *EFFECTIVE DATE.*—*The amendment made by sub-*  
 22          *section (a) shall apply to years beginning after December*  
 23          *31, 2000.*

1 **SEC. 1208. ELIMINATION OF USER FEE FOR REQUESTS TO**  
2 **IRS REGARDING PENSION PLANS.**

3 (a) *ELIMINATION OF CERTAIN USER FEES.*—The Sec-  
4 retary of the Treasury or the Secretary’s delegate shall not  
5 require payment of user fees under the program established  
6 under section 7527 of the Internal Revenue Code of 1986  
7 for requests to the Internal Revenue Service for determina-  
8 tion letters with respect to the qualified status of a pension  
9 benefit plan maintained solely by one or more eligible em-  
10 ployers or any trust which is part of the plan. The pre-  
11 ceding sentence shall not apply to any request made by the  
12 sponsor of any prototype or similar plan which the sponsor  
13 intends to market to participating employers.

14 (b) *PENSION BENEFIT PLAN.*—For purposes of this  
15 section, the term “pension benefit plan” means a pension,  
16 profit-sharing, stock bonus, annuity, or employee stock own-  
17 ership plan.

18 (c) *ELIGIBLE EMPLOYER.*—For purposes of this sec-  
19 tion, the term “eligible employer” has the same meaning  
20 given such term in section 408(p)(2)(C)(i)(I) of the Internal  
21 Revenue Code of 1986. The determination of whether an em-  
22 ployer is an eligible employer under this section shall be  
23 made as of the date of the request described in subsection  
24 (a).

1       (d) *EFFECTIVE DATE.*—*The provisions of this section*  
 2 *shall apply with respect to requests made after December*  
 3 *31, 2000.*

4 **SEC. 1209. DEDUCTION LIMITS.**

5       (a) *IN GENERAL.*—*Section 404(a) (relating to general*  
 6 *rule) is amended by adding at the end the following:*

7               “(12) *DEFINITION OF COMPENSATION.*—*For pur-*  
 8 *poses of paragraphs (3), (7), (8), and (9), the term*  
 9 *‘compensation’ shall include amounts treated as par-*  
 10 *ticipant’s compensation under subparagraph (C) or*  
 11 *(D) of section 415(c)(3).”.*

12       (b) *CONFORMING AMENDMENT.*—*Subparagraph (B) of*  
 13 *section 404(a)(3) is amended by striking the last sentence*  
 14 *thereof.*

15       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 16 *section shall apply to years beginning after December 31,*  
 17 *2000.*

18 **SEC. 1210. OPTION TO TREAT ELECTIVE DEFERRALS AS**  
 19 **AFTER-TAX CONTRIBUTIONS.**

20       (a) *IN GENERAL.*—*Subpart A of part I of subchapter*  
 21 *D of chapter 1 (relating to deferred compensation, etc.) is*  
 22 *amended by inserting after section 402 the following new*  
 23 *section:*

1 **“SEC. 402A. OPTIONAL TREATMENT OF ELECTIVE DEFER-**  
2 **RALS AS PLUS CONTRIBUTIONS.**

3 “(a) *GENERAL RULE.—If an applicable retirement*  
4 *plan includes a qualified plus contribution program—*

5 “(1) *any designated plus contribution made by*  
6 *an employee pursuant to the program shall be treated*  
7 *as an elective deferral for purposes of this chapter, ex-*  
8 *cept that such contribution shall not be excludable*  
9 *from gross income, and*

10 “(2) *such plan (and any arrangement which is*  
11 *part of such plan) shall not be treated as failing to*  
12 *meet any requirement of this chapter solely by reason*  
13 *of including such program.*

14 “(b) *QUALIFIED PLUS CONTRIBUTION PROGRAM.—*  
15 *For purposes of this section—*

16 “(1) *IN GENERAL.—The term ‘qualified plus con-*  
17 *tribution program’ means a program under which an*  
18 *employee may elect to make designated plus contribu-*  
19 *tions in lieu of all or a portion of elective deferrals*  
20 *the employee is otherwise eligible to make under the*  
21 *applicable retirement plan.*

22 “(2) *SEPARATE ACCOUNTING REQUIRED.—A pro-*  
23 *gram shall not be treated as a qualified plus contribu-*  
24 *tion program unless the applicable retirement plan—*

25 “(A) *establishes separate accounts (‘des-*  
26 *ignated plus accounts’) for the designated plus*

1           *contributions of each employee and any earnings*  
 2           *properly allocable to the contributions, and*

3           “(B) *maintains separate recordkeeping with*  
 4           *respect to each account.*

5           “(c) *DEFINITIONS AND RULES RELATING TO DES-*  
 6 *IGNATED PLUS CONTRIBUTIONS.—For purposes of this*  
 7 *section—*

8           “(1) *DESIGNATED PLUS CONTRIBUTION.—The*  
 9           *term ‘designated plus contribution’ means any elec-*  
 10          *tive deferral which—*

11           “(A) *is excludable from gross income of an*  
 12           *employee without regard to this section, and*

13           “(B) *the employee designates (at such time*  
 14           *and in such manner as the Secretary may pre-*  
 15           *scribe) as not being so excludable.*

16           “(2) *DESIGNATION LIMITS.—The amount of elec-*  
 17           *tive deferrals which an employee may designate under*  
 18           *paragraph (1) shall not exceed the excess (if any) of—*

19           “(A) *the maximum amount of elective defer-*  
 20           *als excludable from gross income of the employee*  
 21           *for the taxable year (without regard to this sec-*  
 22           *tion), over*

23           “(B) *the aggregate amount of elective defer-*  
 24           *als of the employee for the taxable year which*

1        *the employee does not designate under paragraph*  
 2        *(1).*

3        “(3) *ROLLOVER CONTRIBUTIONS.*—

4                “(A) *IN GENERAL.*—A rollover contribution  
 5        *of any payment or distribution from a des-*  
 6        *ignated plus account which is otherwise allow-*  
 7        *able under this chapter may be made only if the*  
 8        *contribution is to—*

9                        “(i) *another designated plus account of*  
 10                      *the individual from whose account the pay-*  
 11                      *ment or distribution was made, or*

12                      “(ii) *a Roth IRA of such individual.*

13                “(B) *COORDINATION WITH LIMIT.*—Any  
 14        *rollover contribution to a designated plus ac-*  
 15        *count under subparagraph (A) shall not be taken*  
 16        *into account for purposes of paragraph (1).*

17        “(d) *DISTRIBUTION RULES.*—For purposes of this  
 18        *title—*

19                “(1) *EXCLUSION.*—Any qualified distribution  
 20        *from a designated plus account shall not be includible*  
 21        *in gross income.*

22                “(2) *QUALIFIED DISTRIBUTION.*—For purposes  
 23        *of this subsection—*

24                      “(A) *IN GENERAL.*—The term ‘qualified dis-

25        *tribution’ has the meaning given such term by*



1        *section 408A(d)(2)(A) (without regard to clause*  
 2        *(iv) thereof).*

3            “(B) *DISTRIBUTIONS WITHIN NONEXCLU-*  
 4        *SION PERIOD.—A payment or distribution from*  
 5        *a designated plus account shall not be treated as*  
 6        *a qualified distribution if such payment or dis-*  
 7        *tribution is made within the 5-taxable-year pe-*  
 8        *riod beginning with the earlier of—*

9            “(i) *the 1st taxable year for which the*  
 10        *individual made a designated plus con-*  
 11        *tribution to any designated plus account es-*  
 12        *tablished for such individual under the*  
 13        *same applicable retirement plan, or*

14          “(ii) *if a rollover contribution was*  
 15        *made to such designated plus account from*  
 16        *a designated plus account previously estab-*  
 17        *lished for such individual under another*  
 18        *applicable retirement plan, the 1st taxable*  
 19        *year for which the individual made a des-*  
 20        *ignated plus contribution to such previously*  
 21        *established account.*

22          “(C) *DISTRIBUTIONS OF EXCESS DEFER-*  
 23        *RALS AND EARNINGS.—The term ‘qualified dis-*  
 24        *tribution’ shall not include any distribution of*

1           *any excess deferral under section 402(g)(2) and*  
 2           *any income on the excess deferral.*

3           “(3) *AGGREGATION RULES.*—Section 72 shall be  
 4           *applied separately with respect to distributions and*  
 5           *payments from a designated plus account and other*  
 6           *distributions and payments from the plan.*

7           “(e) *OTHER DEFINITIONS.*—For purposes of this  
 8           *section—*

9           “(1) *APPLICABLE RETIREMENT PLAN.*—The term  
 10          *‘applicable retirement plan’ means—*

11               “(A) *an employees’ trust described in sec-*  
 12               *tion 401(a) which is exempt from tax under sec-*  
 13               *tion 501(a), and*

14               “(B) *a plan under which amounts are con-*  
 15               *tributed by an individual’s employer for an an-*  
 16               *nuity contract described in section 403(b).*

17           “(2) *ELECTIVE DEFERRAL.*—The term ‘*elective*  
 18           *deferral’ means any elective deferral described in sub-*  
 19           *paragraph (A) or (C) of section 402(g)(3).’*

20          “(b) *EXCESS DEFERRALS.*—Section 402(g) (relating to  
 21          *limitation on exclusion for elective deferrals) is amended—*

22               (1) *by adding at the end of paragraph (1) the*  
 23               *following new sentence: “The preceding sentence shall*  
 24               *not apply to so much of such excess as does not exceed*

1        *the designated plus contributions of the individual for*  
 2        *the taxable year.”, and*

3                (2) *by inserting “(or would be included but for*  
 4        *the last sentence thereof)” after “paragraph (1)” in*  
 5        *paragraph (2)(A).*

6        (c) *ROLLOVERS.—Subparagraph (B) of section*  
 7        *402(c)(8) is amended by adding at the end the following:*

8                *“If any portion of an eligible rollover distribu-*  
 9                *tion is attributable to payments or distributions*  
 10               *from a designated plus account (as defined in*  
 11               *section 402A), an eligible retirement plan with*  
 12               *respect to such portion shall include only another*  
 13               *designated plus account and a Roth IRA.”*

14        (d) *REPORTING REQUIREMENTS.—*

15               (1) *W-2 INFORMATION.—Section 6051(a)(8) is*  
 16               *amended by inserting “, including the amount of des-*  
 17               *ignated plus contributions (as defined in section*  
 18               *402A)” before the comma at the end.*

19               (2) *INFORMATION.—Section 6047 is amended by*  
 20               *redesignating subsection (f) as subsection (g) and by*  
 21               *inserting after subsection (e) the following new sub-*  
 22               *section:*

23               *“(f) DESIGNATED PLUS CONTRIBUTIONS.—The Sec-*  
 24               *retary shall require the plan administrator of each applica-*  
 25               *ble retirement plan (as defined in section 402A) to make*

1 *such returns and reports regarding designated plus con-*  
 2 *tributions (as so defined) to the Secretary, participants and*  
 3 *beneficiaries of the plan, and such other persons as the Sec-*  
 4 *retary may prescribe.”*

5 *(e) CONFORMING AMENDMENTS.—*

6 *(1) Section 408A(e) is amended by adding after*  
 7 *the first sentence the following new sentence: “Such*  
 8 *term includes a rollover contribution described in sec-*  
 9 *tion 402A(c)(3)(A).”*

10 *(2) The table of sections for subpart A of part I*  
 11 *of subchapter D of chapter 1 is amended by inserting*  
 12 *after the item relating to section 402 the following*  
 13 *new item:*

*“Sec. 402A. Optional treatment of elective deferrals as plus contributions.”*

14 *(f) EFFECTIVE DATE.—The amendments made by this*  
 15 *section shall apply to taxable years beginning after Decem-*  
 16 *ber 31, 2000.*

17 **SEC. 1211. INCREASE IN MINIMUM DEFINED BENEFIT LIMIT**  
 18 **UNDER SECTION 415.**

19 *(a) IN GENERAL.—Paragraph (4) of section 415(b)*  
 20 *(relating to total annual benefits not in excess of \$10,000)*  
 21 *is amended to read as follows:*

22 *“(4) TOTAL ANNUAL BENEFITS NOT IN EXCESS*  
 23 *OF \$40,000.—Notwithstanding the preceding provisions*  
 24 *of this subsection, the benefits payable with respect to*  
 25 *a participant under any defined benefit plan shall be*

1        *deemed not to exceed the limitation of this subsection*  
 2        *if the retirement benefits payable with respect to such*  
 3        *participant under such plan and under all other de-*  
 4        *fin ed benefit plans of the employer do not exceed*  
 5        *\$40,000 for the plan year or any prior plan year. The*  
 6        *preceding sentence shall be applied by substituting for*  
 7        *‘\$40,000’—*

8                *“(A) \$20,000 if the plan year begins during*  
 9                *2001, and*

10                *“(B) \$30,000 if the plan year begins during*  
 11                *2002.”*

12        *(b) EFFECTIVE DATE.—The amendment made by this*  
 13        *section shall apply to years beginning after December 31,*  
 14        *2000.*

15        ***Subtitle B—Enhancing Fairness for***  
 16                ***Women***

17        ***SEC. 1221. ADDITIONAL SALARY REDUCTION CATCH-UP***  
 18                ***CONTRIBUTIONS.***

19        *(a) LIMITATION ON EXCLUSION FOR ELECTIVE DE-*  
 20        *FERRALS.—*

21                *(1) IN GENERAL.—Subsection (g) of section 402*  
 22        *(as amended by section 1201(d)) is further amended*  
 23        *by adding at the end the following:*

24                *“(9) CATCH-UP CONTRIBUTIONS FOR THOSE AP-*  
 25        *PROACHING RETIREMENT.—*

1           “(A) *IN GENERAL.*—*In the case of an indi-*  
 2           *vidual who is at least age 50 as of the end of any*  
 3           *taxable year, the limitation of paragraph (1) for*  
 4           *such year, after the application of paragraph*  
 5           *(7), shall be increased by the applicable catch-up*  
 6           *amount.*

7           “(B) *APPLICABLE CATCH-UP AMOUNT.*—*For*  
 8           *purposes of subparagraph (A), the applicable*  
 9           *catch-up amount shall be the amount determined*  
 10          *in accordance with the following table:*

<b>“Taxable year:</b>	<b>Applicable catch-up amount:</b>
2001 .....	\$1,000
2002 .....	\$2,000
2003 .....	\$3,000
2004 .....	\$4,000
2005 or thereafter .....	\$5,000.”.

11          (2) *COST-OF-LIVING ADJUSTMENTS.*—*Paragraph*  
 12          *(4) of section 402(g) (relating to cost-of-living adjust-*  
 13          *ment), as amended by section 1201(d), is further*  
 14          *amended by inserting “and the \$5,000 dollar amount*  
 15          *in paragraph (9)” after “paragraph (1)(B)”.*

16          (b) *SIMPLE RETIREMENT ACCOUNTS.*—*Paragraph (2)*  
 17          *of section 408(p) (relating to qualified salary reduction ar-*  
 18          *rangement) is amended by inserting at the end of the fol-*  
 19          *lowing new subparagraph:*

20               “(F) *CATCH-UP CONTRIBUTIONS FOR THOSE*  
 21               *APPROACHING RETIREMENT.*—*In the case of an*  
 22               *individual who is at least age 50 as of the end*

1           *of any taxable year, the limitation of subpara-*  
 2           *graph (A)(ii) for such year shall be increased by*  
 3           *the applicable catch-up amount. For purposes of*  
 4           *the preceding sentence, the applicable catch-up*  
 5           *amount is the amount in effect under section*  
 6           *402(g)(9) for such taxable year.”.*

7           *(c) DEFERRED COMPENSATION PLANS OF STATE AND*  
 8           *LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZA-*  
 9           *TIONS.—Subsection (e) of section 457 (relating to other defi-*  
 10          *nitions and special rules) is amended by adding after para-*  
 11          *graph (16) the following new paragraph:*

12           *“(17) CATCH-UP AMOUNTS.—In the case of an*  
 13          *individual who is at least age 50 as of the end of any*  
 14          *taxable year, the limitation of subsection (b)(2)(A) for*  
 15          *such year shall be increased by the applicable catch-*  
 16          *up amount (as in effect under section 402(g)(9) for*  
 17          *such taxable year), except that this paragraph shall*  
 18          *not apply to any taxable year to which subsection*  
 19          *(b)(3) applies.”.*

20          *(d) EFFECTIVE DATE.—The amendments made by this*  
 21          *section shall apply to years beginning after December 31,*  
 22          *2000.*

1 **SEC. 1222. EQUITABLE TREATMENT FOR CONTRIBUTIONS**  
2 **OF EMPLOYEES TO DEFINED CONTRIBUTION**  
3 **PLANS.**

4 (a) *EQUITABLE TREATMENT.*—

5 (1) *IN GENERAL.*—Subparagraph (B) of section  
6 415(c)(1) (relating to limitation for defined contribu-  
7 tion plans) is amended by striking “25 percent” and  
8 inserting “100 percent”.

9 (2) *APPLICATION TO SECTION 403(b).*—Section  
10 403(b) is amended—

11 (A) by striking “the exclusion allowance for  
12 such taxable year” in paragraph (1) and insert-  
13 ing “the applicable limit under section 415”,

14 (B) by striking paragraph (2), and

15 (C) by inserting “or any amount received  
16 by a former employee after the 5th taxable year  
17 following the taxable year in which such em-  
18 ployee was terminated” before the period at the  
19 end of the second sentence of paragraph (3).

20 (3) *CONFORMING AMENDMENTS.*—

21 (A) Subsection (f) of section 72 is amended  
22 by striking “section 403(b)(2)(D)(iii)” and in-  
23 serting “section 403(b)(2)(D)(iii), as in effect on  
24 December 31, 2000”.



1           (B) Section 404(a)(10)(B) is amended by  
 2           striking “, the exclusion allowance under section  
 3           403(b)(2),”.

4           (C) Section 415(a)(2) is amended by strik-  
 5           ing “, and the amount of the contribution for  
 6           such portion shall reduce the exclusion allowance  
 7           as provided in section 403(b)(2)”.

8           (D) Section 415(c)(3) is amended by adding  
 9           at the end the following new subparagraph:

10           “(E) ANNUITY CONTRACTS.—In the case of  
 11           an annuity contract described in section 403(b),  
 12           the term ‘participant’s compensation’ means the  
 13           participant’s includible compensation deter-  
 14           mined under section 403(b)(3).”.

15           (E) Section 415(c) is amended by striking  
 16           paragraph (4).

17           (F) Section 415(c)(7) is amended to read as  
 18           follows:

19           “(7) CERTAIN CONTRIBUTIONS BY CHURCH  
 20           PLANS NOT TREATED AS EXCEEDING LIMIT.—

21           “(A) IN GENERAL.—Notwithstanding any  
 22           other provision of this subsection, at the election  
 23           of a participant who is an employee of a church  
 24           or a convention or association of churches, in-  
 25           cluding an organization described in section

1       414(e)(3)(B)(ii), contributions and other addi-  
 2       tions for an annuity contract or retirement in-  
 3       come account described in section 403(b) with re-  
 4       spect to such participant, when expressed as an  
 5       annual addition to such participant's account,  
 6       shall be treated as not exceeding the limitation  
 7       of paragraph (1) if such annual addition is not  
 8       in excess of \$10,000.

9       “(B) \$40,000 AGGREGATE LIMITATION.—  
 10       The total amount of additions with respect to  
 11       any participant which may be taken into ac-  
 12       count for purposes of this subparagraph for all  
 13       years may not exceed \$40,000.

14       “(C) ANNUAL ADDITION.—For purposes of  
 15       this paragraph, the term ‘annual addition’ has  
 16       the meaning given such term by paragraph (2).”.

17       (G) Subparagraph (B) of section 402(g)(7)  
 18       (as amended by section 1201(d)) is amended by  
 19       inserting before the period at the end the fol-  
 20       lowing: “(as in effect on the date of the enact-  
 21       ment of the Financial Freedom Act of 1999)”.

22       (3) EFFECTIVE DATE.—The amendments made  
 23       by this subsection shall apply to years beginning after  
 24       December 31, 2000.

25       (b) SPECIAL RULES FOR SECTIONS 403(b) AND 408.—

1           (1) *IN GENERAL.*—Subsection (k) of section 415  
2       is amended by adding at the end the following new  
3       paragraph:

4           “(4) *SPECIAL RULES FOR SECTIONS 403(b) AND*  
5       *408.*—For purposes of this section, any annuity con-  
6       tract described in section 403(b) for the benefit of a  
7       participant shall be treated as a defined contribution  
8       plan maintained by each employer with respect to  
9       which the participant has the control required under  
10      subsection (b) or (c) of section 414 (as modified by  
11      subsection (h)). For purposes of this section, any con-  
12      tribution by an employer to a simplified employee  
13      pension plan for an individual for a taxable year  
14      shall be treated as an employer contribution to a de-  
15      fined contribution plan for such individual for such  
16      year.”.

17          (2) *EFFECTIVE DATE.*—

18                (A) *IN GENERAL.*—The amendment made  
19       by paragraph (1) shall apply to limitation years  
20       beginning after December 31, 1999.

21                (B) *EXCLUSION ALLOWANCE.*—Effective for  
22       limitation years beginning in 2000, in the case  
23       of any annuity contract described in section  
24       403(b) of the Internal Revenue Code of 1986, the  
25       amount of the contribution disqualified by rea-

1           son of section 415(g) of such Code shall reduce  
 2           the exclusion allowance as provided in section  
 3           403(b)(2) of such Code.

4           (c) *DEFERRED COMPENSATION PLANS OF STATE AND*  
 5           *LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZA-*  
 6           *TIONS.—*

7           (1) *IN GENERAL.—*Subparagraph (B) of section  
 8           457(b)(2) (relating to salary limitation on eligible de-  
 9           ferred compensation plans) is amended by striking  
 10          “33 $\frac{1}{3}$  percent” and inserting “100 percent”.

11          (2) *EFFECTIVE DATE.—*The amendment made by  
 12          this subsection shall apply to years beginning after  
 13          December 31, 2000.

14   **SEC. 1223. FASTER VESTING OF CERTAIN EMPLOYER**  
 15           **MATCHING CONTRIBUTIONS.**

16          (a) *IN GENERAL.—*Section 411(a) (relating to min-  
 17          imum vesting standards) is amended—

18           (1) in paragraph (2), by striking “A plan” and  
 19           inserting “Except as provided in paragraph (12), a  
 20           plan”, and

21           (2) by adding at the end the following:

22           “(12) *FASTER VESTING FOR MATCHING CON-*  
 23           *TRIBUTIONS.—*In the case of matching contributions  
 24           (as defined in section 401(m)(4)(A)), paragraph (2)  
 25           shall be applied—

1                   “(A) by substituting ‘3 years’ for ‘5 years’  
 2                   in subparagraph (A), and  
 3                   “(B) by substituting the following table for  
 4                   the table contained in subparagraph (B):

<b>“Years of service:</b>	<b>The nonforfeitable percentage is:</b>
2 .....	20
3 .....	40
4 .....	60
5 .....	80
6 or more .....	100.”.

5                   (b) *EFFECTIVE DATES.*—

6                   (1) *IN GENERAL.*—Except as provided in para-  
 7                   graph (2), the amendments made by this section shall  
 8                   apply to plan years beginning after December 31,  
 9                   2000.

10                  (2) *COLLECTIVE BARGAINING AGREEMENTS.*—In  
 11                  the case of a plan maintained pursuant to 1 or more  
 12                  collective bargaining agreements between employee  
 13                  representatives and 1 or more employers ratified by  
 14                  the date of the enactment of this Act, the amendments  
 15                  made by this section shall not apply to plan years be-  
 16                  ginning before the earlier of—

17                         (A) the later of—

18                                 (i) the date on which the last of such  
 19                                 collective bargaining agreements terminates  
 20                                 (determined without regard to any exten-  
 21                                 sion thereof on or after such date of enact-  
 22                                 ment), or

1                   (ii) *January 1, 2001, or*

2                   (B) *January 1, 2005.*

3                   (3) *SERVICE REQUIRED.—With respect to any*  
 4                   *plan, the amendments made by this section shall not*  
 5                   *apply to any employee before the date that such em-*  
 6                   *ployee has 1 hour of service under such plan in any*  
 7                   *plan year to which the amendments made by this sec-*  
 8                   *tion apply.*

9   **SEC. 1224. SIMPLIFY AND UPDATE THE MINIMUM DISTRIBUTION RULES.**  
 10

11                   (a) *SIMPLIFICATION AND FINALIZATION OF MINIMUM*  
 12                   *DISTRIBUTION REQUIREMENTS.—*

13                   (1) *IN GENERAL.—The Secretary of the Treasury*  
 14                   *shall—*

15                               (A) *simplify and finalize the regulations re-*  
 16                               *lating to minimum distribution requirements*  
 17                               *under sections 401(a)(9), 408(a)(6) and (b)(3),*  
 18                               *403(b)(10), and 457(d)(2) of the Internal Rev-*  
 19                               *enue Code of 1986, and*

20                               (B) *modify such regulations to—*

21                                       (i) *reflect current life expectancy, and*

22                                       (ii) *revise the required distribution*  
 23                               *methods so that, under reasonable assump-*  
 24                               *tions, the amount of the required minimum*

1                   *distribution does not decrease over a par-*  
2                   *ticipant's life expectancy.*

3           (2) *FRESH START.*—*Notwithstanding subpara-*  
4           *graph (D) of section 401(a)(9) of such Code, during*  
5           *the first year that regulations are in effect under this*  
6           *subsection, required distributions for future years*  
7           *may be redetermined to reflect changes under such*  
8           *regulations. Such redetermination shall include the*  
9           *opportunity to choose a new designated beneficiary*  
10          *and to elect a new method of calculating life expect-*  
11          *ancy.*

12          (3) *EFFECTIVE DATE FOR REGULATIONS.*—*Regu-*  
13          *lations referred to in paragraph (1) shall be effective*  
14          *for years beginning after December 31, 2000, and*  
15          *shall apply in such years without regard to whether*  
16          *an individual had previously begun receiving min-*  
17          *imum distributions.*

18          (b) *REPEAL OF RULE WHERE DISTRIBUTIONS HAD*  
19          *BEGUN BEFORE DEATH OCCURS.*—

20               (1) *IN GENERAL.*—*Subparagraph (B) of section*  
21               *401(a)(9) is amended by striking clause (i) and redes-*  
22               *ignating clauses (ii), (iii), and (iv) as clauses (i),*  
23               *(ii), and (iii), respectively.*

24               (2) *CONFORMING CHANGES.*—

1           (A) Clause (i) of section 401(a)(9)(B) (as so  
2           redesignated) is amended—

3                   (i) by striking “FOR OTHER CASES” in  
4                   the heading, and

5                   (ii) by striking “the distribution of the  
6                   employee’s interest has begun in accordance  
7                   with subparagraph (A)(ii)” and inserting  
8                   “his entire interest has been distributed to  
9                   him,”.

10           (B) Clause (ii) of section 401(a)(9)(B) (as  
11           so redesignated) is amended by striking “clause  
12           (ii)” and inserting “clause (i)”.

13           (C) Clause (iii) of section 401(a)(9)(B) (as  
14           so redesignated) is amended—

15                   (i) by striking “clause (iii)(I)” and in-  
16                   serting “clause (ii)(I)”,

17                   (ii) in subclause (I) by striking “clause  
18                   (iii)(III)” and inserting “clause (ii)(III)”,

19                   (iii) in subclause (I) by striking “the  
20                   date on which the employee would have at-  
21                   tained the age 70<sup>1/2</sup>,” and inserting “April  
22                   1 of the calendar year following the cal-  
23                   endar year in which the spouse attains  
24                   70<sup>1/2</sup>,” and



1                   (iv) in subclause (II) by striking “the  
2                   distributions to such spouse begin,” and in-  
3                   serting “his entire interest has been distrib-  
4                   uted to him,”.

5                   (3) *EFFECTIVE DATE.*—The amendments made  
6                   by this subsection shall apply to years beginning after  
7                   December 31, 2000.

8                   (c) *REDUCTION IN EXCISE TAX.*—

9                   (1) *IN GENERAL.*—Subsection (a) of section 4974  
10                  is amended by striking “50 percent” and inserting  
11                  “10 percent”.

12                  (2) *EFFECTIVE DATE.*—The amendment made by  
13                  this subsection shall apply to years beginning after  
14                  December 31, 2000.

15 **SEC. 1225. CLARIFICATION OF TAX TREATMENT OF DIVI-**  
16 **SION OF SECTION 457 PLAN BENEFITS UPON**  
17 **DIVORCE.**

18                  (a) *IN GENERAL.*—Section 414(p)(11) (relating to ap-  
19                  plication of rules to governmental and church plans) is  
20                  amended—

21                  (1) by inserting “or an eligible deferred com-  
22                  pensation plan (within the meaning of section  
23                  457(b))” after “subsection (e))”, and

1           (2) *in the heading, by striking “GOVERNMENTAL*  
2           *AND CHURCH PLANS” and inserting “CERTAIN OTHER*  
3           *PLANS”.*

4           (b) *WAIVER OF CERTAIN DISTRIBUTION REQUIRE-*  
5           *MENTS.—Paragraph (10) of section 414(p) is amended by*  
6           *striking “and section 409(d)” and inserting “section*  
7           *409(d), and section 457(d)”.*

8           (c) *TAX TREATMENT OF PAYMENTS FROM A SECTION*  
9           *457 PLAN.—Subsection (p) of section 414 is amended by*  
10          *redesignating paragraph (12) as paragraph (13) and in-*  
11          *serting after paragraph (11) the following new paragraph:*

12                 *“(12) TAX TREATMENT OF PAYMENTS FROM A*  
13                 *SECTION 457 PLAN.—If a distribution or payment*  
14                 *from an eligible deferred compensation plan described*  
15                 *in section 457(b) is made pursuant to a qualified do-*  
16                 *mestic relations order, rules similar to the rules of*  
17                 *section 402(e)(1)(A) shall apply to such distribution*  
18                 *or payment.”.*

19           (d) *EFFECTIVE DATE.—The amendments made by this*  
20           *section shall apply to transfers, distributions, and pay-*  
21           *ments made after December 31, 2000.*

1     ***Subtitle C—Increasing Portability***  
2                     ***for Participants***

3     ***SEC. 1231. ROLLOVERS ALLOWED AMONG VARIOUS TYPES***  
4                     ***OF PLANS.***

5             *(a) ROLLOVERS FROM AND TO SECTION 457 PLANS.—*

6                     *(1) ROLLOVERS FROM SECTION 457 PLANS.—*

7                             *(A) IN GENERAL.—Section 457(e) (relating*  
8                             *to other definitions and special rules) is amend-*  
9                             *ed by adding at the end the following:*

10                             *“(16) ROLLOVER AMOUNTS.—*

11                                     *“(A) GENERAL RULE.—In the case of an el-*  
12                                     *igible deferred compensation plan established*  
13                                     *and maintained by an employer described in*  
14                                     *subsection (e)(1)(A), if—*

15   *“(i) any portion of the balance to the*  
16   *credit of an employee in such plan is paid*  
17   *to such employee in an eligible rollover dis-*  
18   *tribution (within the meaning of section*  
19   *402(c)(4) without regard to subparagraph*  
20   *(C) thereof),*

21   *“(ii) the employee transfers any por-*  
22   *tion of the property such employee receives*  
23   *in such distribution to an eligible retire-*  
24   *ment plan described in section 402(c)(8)(B),*  
25   *and*

1                   “(iii) in the case of a distribution of  
 2                   property other than money, the amount so  
 3                   transferred consists of the property distrib-  
 4                   uted,  
 5                   then such distribution (to the extent so trans-  
 6                   ferred) shall not be includible in gross income for  
 7                   the taxable year in which paid.

8                   “(B) CERTAIN RULES MADE APPLICABLE.—  
 9                   The rules of paragraphs (2) through (7) (other  
 10                  than paragraph (4)(C)) and (9) of section 402(c)  
 11                  and section 402(f) shall apply for purposes of  
 12                  subparagraph (A).

13                  “(C) REPORTING.—Rollovers under this  
 14                  paragraph shall be reported to the Secretary in  
 15                  the same manner as rollovers from qualified re-  
 16                  tirement plans (as defined in section 4974(c)).”.

17                  (B) DEFERRAL LIMIT DETERMINED WITH-  
 18                  OUT REGARD TO ROLLOVER AMOUNTS.—Section  
 19                  457(b)(2) (defining eligible deferred compensa-  
 20                  tion plan) is amended by inserting “(other than  
 21                  rollover amounts)” after “taxable year”.

22                  (C) DIRECT ROLLOVER.—Paragraph (1) of  
 23                  section 457(d) is amended by striking “and” at  
 24                  the end of subparagraph (A), by striking the pe-  
 25                  riod at the end of subparagraph (B) and insert-

1           ing “, and”, and by inserting after subpara-  
2           graph (B) the following:

3                   “(C) in the case of a plan maintained by  
4           an employer described in subsection (e)(1)(A),  
5           the plan meets requirements similar to the re-  
6           quirements of section 401(a)(31).

7           Any amount transferred in a direct trustee-to-trustee  
8           transfer in accordance with section 401(a)(31) shall  
9           not be includible in gross income for the taxable year  
10          of transfer.”.

11                   (D) WITHHOLDING.—

12                   (i) Paragraph (12) of section 3401(a)  
13           is amended by adding at the end the fol-  
14           lowing:

15                   “(E) under or to an eligible deferred com-  
16           pensation plan which, at the time of such pay-  
17           ment, is a plan described in section 457(b)  
18           maintained by an employer described in section  
19           457(e)(1)(A); or”.

20                   (ii) Paragraph (3) of section 3405(c) is  
21           amended to read as follows:

22                   “(3) ELIGIBLE ROLLOVER DISTRIBUTION.—For  
23           purposes of this subsection, the term ‘eligible rollover  
24           distribution’ has the meaning given such term by sec-  
25           tion 402(f)(2)(A).”.

1                   (iii) *LIABILITY FOR WITHHOLDING.*—

2                   *Subparagraph (B) of section 3405(d)(2) is*  
 3                   *amended by striking “or” at the end of*  
 4                   *clause (ii), by striking the period at the end*  
 5                   *of clause (iii) and inserting “, or”, and by*  
 6                   *adding at the end the following:*

7                   “(iv) *section 457(b).*”.

8                   (2) *ROLLOVERS TO SECTION 457 PLANS.*—

9                   (A) *IN GENERAL.*—Section 402(c)(8)(B)  
 10                  *(defining eligible retirement plan) is amended by*  
 11                  *striking “and” at the end of clause (iii), by*  
 12                  *striking the period at the end of clause (iv) and*  
 13                  *inserting “, and”, and by inserting after clause*  
 14                  *(iv) the following new clause:*

15                  “(v) *an eligible deferred compensation*  
 16                  *plan described in section 457(b) of an em-*  
 17                  *ployer described in section 457(e)(1)(A).*”.

18                  (B) *SEPARATE ACCOUNTING.*—Section  
 19                  402(c) is amended by adding at the end the fol-  
 20                  *lowing new paragraph:*

21                  “(11) *SEPARATE ACCOUNTING.*—Unless a plan  
 22                  *described in clause (v) of paragraph (8)(B) agrees to*  
 23                  *separately account for amounts rolled into such plan*  
 24                  *from eligible retirement plans not described in such*  
 25                  *clause, the plan described in such clause may not ac-*

1        *cept transfers or rollovers from such retirement*  
 2        *plans.”.*

3                (C) 10 PERCENT ADDITIONAL TAX.—Sub-  
 4        *section (t) of section 72 (relating to 10-percent*  
 5        *additional tax on early distributions from quali-*  
 6        *fied retirement plans) is amended by adding at*  
 7        *the end the following new paragraph:*

8                “(9) SPECIAL RULE FOR ROLLOVERS TO SECTION  
 9        *457 PLANS.—For purposes of this subsection, a dis-*  
 10        *tribution from an eligible deferred compensation plan*  
 11        *(as defined in section 457(b)) of an employer de-*  
 12        *scribed in section 457(e)(1)(A) shall be treated as a*  
 13        *distribution from a qualified retirement plan de-*  
 14        *scribed in 4974(c)(1) to the extent that such distribu-*  
 15        *tion is attributable to an amount transferred to an el-*  
 16        *igible deferred compensation plan from a qualified re-*  
 17        *irement plan (as defined in section 4974(c)).”.*

18        (b) ALLOWANCE OF ROLLOVERS FROM AND TO 403(b)  
 19        *PLANS.—*

20                (1) ROLLOVERS FROM SECTION 403(b) PLANS.—  
 21        *Section 403(b)(8)(A)(ii) (relating to rollover*  
 22        *amounts) is amended by striking “such distribution”*  
 23        *and all that follows and inserting “such distribution*  
 24        *to an eligible retirement plan described in section*  
 25        *402(c)(8)(B), and”.*

1           (2) *ROLLOVERS TO SECTION 403(b) PLANS.*—Sec-  
 2           tion 402(c)(8)(B) (defining eligible retirement plan),  
 3           as amended by subsection (a), is amended by striking  
 4           “and” at the end of clause (iv), by striking the period  
 5           at the end of clause (v) and inserting  
 6           “, and”, and by inserting after clause (v) the fol-  
 7           lowing new clause:

8                               “(vi) an annuity contract described in  
 9                               section 403(b).”

10          (c) *EXPANDED EXPLANATION TO RECIPIENTS OF*  
 11          *ROLLOVER DISTRIBUTIONS.*—Paragraph (1) of section  
 12          402(f) (relating to written explanation to recipients of dis-  
 13          tributions eligible for rollover treatment) is amended by  
 14          striking “and” at the end of subparagraph (C), by striking  
 15          the period at the end of subparagraph (D) and inserting  
 16          “, and”, and by adding at the end the following new sub-  
 17          paragraph:

18                               “(E) of the provisions under which distribu-  
 19                               tions from the eligible retirement plan receiving  
 20                               the distribution may be subject to restrictions  
 21                               and tax consequences which are different from  
 22                               those applicable to distributions from the plan  
 23                               making such distribution.”.

24          (d) *SPOUSAL ROLLOVERS.*—Section 402(c)(9) (relat-  
 25          ing to rollover where spouse receives distribution after death



1 of employee) is amended by striking “; except that” and  
 2 all that follows up to the end period.

3 (e) CONFORMING AMENDMENTS.—

4 (1) Section 72(o)(4) is amended by striking “and  
 5 408(d)(3)” and inserting “403(b)(8), 408(d)(3), and  
 6 457(e)(16)”.

7 (2) Section 219(d)(2) is amended by striking “or  
 8 408(d)(3)” and inserting “408(d)(3), or 457(e)(16)”.

9 (3) Section 401(a)(31)(B) is amended by strik-  
 10 ing “and 403(a)(4)” and inserting “, 403(a)(4),  
 11 403(b)(8), and 457(e)(16)”.

12 (4) Subparagraph (A) of section 402(f)(2) is  
 13 amended by striking “or paragraph (4) of section  
 14 403(a)” and inserting “, paragraph (4) of section  
 15 403(a), subparagraph (A) of section 403(b)(8), or sub-  
 16 paragraph (A) of section 457(e)(16)”.

17 (5) Paragraph (1) of section 402(f) is amended  
 18 by striking “from an eligible retirement plan”.

19 (6) Subparagraphs (A) and (B) of section  
 20 402(f)(1) are amended by striking “another eligible  
 21 retirement plan” and inserting “an eligible retire-  
 22 ment plan”.

23 (7) Subparagraph (B) of section 403(b)(8) is  
 24 amended to read as follows:

1                   “(B) *CERTAIN RULES MADE APPLICABLE.*—  
 2                   *The rules of paragraphs (2) through (7) and (9)*  
 3                   *of section 402(c) and section 402(f) shall apply*  
 4                   *for purposes of subparagraph (A), except that*  
 5                   *section 402(f) shall be applied to the payor in*  
 6                   *lieu of the plan administrator.”.*

7                   (8) *Section 408(a)(1) is amended by striking “or*  
 8                   *403(b)(8)” and inserting “, 403(b)(8), or 457(e)(16)”.*

9                   (9) *Subparagraphs (A) and (B) of section*  
 10                  *415(b)(2) are each amended by striking “and*  
 11                  *408(d)(3)” and inserting “403(b)(8), 408(d)(3), and*  
 12                  *457(e)(16)”.*

13                  (10) *Section 415(c)(2) is amended by striking*  
 14                  *“and 408(d)(3)” and inserting “408(d)(3), and*  
 15                  *457(e)(16)”.*

16                  (11) *Section 4973(b)(1)(A) is amended by strik-*  
 17                  *ing “or 408(d)(3)” and inserting “408(d)(3), or*  
 18                  *457(e)(16)”.*

19                  (f) *EFFECTIVE DATE; SPECIAL RULE.*—

20                  (1) *EFFECTIVE DATE.*—*The amendments made*  
 21                  *by this section shall apply to distributions after De-*  
 22                  *cember 31, 2000.*

23                  (2) *SPECIAL RULE.*—*Notwithstanding any other*  
 24                  *provision of law, subsections (h)(3) and (h)(5) of sec-*  
 25                  *tion 1122 of the Tax Reform Act of 1986 shall not*

10           (a) *IN GENERAL.*—Subparagraph (A) of section  
11 408(d)(3) (relating to rollover amounts) is amended by add-  
12 ing “or” at the end of clause (i), by striking clauses (ii)  
13 and (iii), and by adding at the end the following:

•HR 2488 RH

1           *For purposes of clause (ii), the term ‘eligible re-*  
 2           *tirement plan’ has the meaning given such term*  
 3           *by clauses (iii), (iv), (v), and (vi) of section*  
 4           *402(c)(8)(B).’.*

5           ***(b) CONFORMING AMENDMENTS.—***

6           *(1) Paragraph (1) of section 403(b) is amended*  
 7           *by striking “section 408(d)(3)(A)(iii)” and inserting*  
 8           *“section 408(d)(3)(A)(ii)”.*

9           *(2) Clause (i) of section 408(d)(3)(D) is amended*  
 10          *by striking “(i), (ii), or (iii)” and inserting “(i) or*  
 11          *(ii)”.*

12          *(3) Subparagraph (G) of section 408(d)(3) is*  
 13          *amended to read as follows:*

14               *“(G) SIMPLE RETIREMENT ACCOUNTS.—In*  
 15               *the case of any payment or distribution out of*  
 16               *a simple retirement account (as defined in sub-*  
 17               *section (p)) to which section 72(t)(6) applies,*  
 18               *this paragraph shall not apply unless such pay-*  
 19               *ment or distribution is paid into another simple*  
 20               *retirement account.”.*

21          ***(c) EFFECTIVE DATE; SPECIAL RULE.—***

22          *(1) EFFECTIVE DATE.—The amendments made*  
 23          *by this section shall apply to distributions after De-*  
 24          *cember 31, 2000.*

1           (2) *SPECIAL RULE.*—Notwithstanding any other  
2           provision of law, subsections (h)(3) and (h)(5) of sec-  
3           tion 1122 of the Tax Reform Act of 1986 shall not  
4           apply to any distribution from an eligible retirement  
5           plan (as defined in clause (iii) or (iv) of section  
6           402(c)(8)(B) of the Internal Revenue Code of 1986) on  
7           behalf of an individual if there was a rollover to such  
8           plan on behalf of such individual which is permitted  
9           solely by reason of the amendments made by this sec-  
10          tion.

11 **SEC. 1233. ROLLOVERS OF AFTER-TAX CONTRIBUTIONS.**

12          (a) *ROLLOVERS FROM EXEMPT TRUSTS.*—Paragraph  
13       (2) of section 402(c) (relating to maximum amount which  
14       may be rolled over) is amended by adding at the end the  
15       following: “The preceding sentence shall not apply to such  
16       distribution to the extent—

17               “(A) such portion is transferred in a direct  
18               trustee-to-trustee transfer to a qualified trust  
19               which is part of a plan which is a defined con-  
20               tribution plan and which agrees to separately  
21               account for amounts so transferred, including  
22               separately accounting for the portion of such dis-  
23               tribution which is includible in gross income  
24               and the portion of such distribution which is not  
25               so includible, or

1                   “(B) such portion is transferred to an eligi-  
 2                   ble retirement plan described in clause (i) or (ii)  
 3                   of paragraph (8)(B).”.

4           (b) *OPTIONAL DIRECT TRANSFER OF ELIGIBLE ROLL-  
 5 OVER DISTRIBUTIONS.*—Subparagraph (B) of section  
 6 401(a)(31) (relating to limitation) is amended by adding  
 7 at the end the following: “The preceding sentence shall not  
 8 apply to such distribution if the plan to which such dis-  
 9 tribution is transferred—

10                   “(i) agrees to separately account for  
 11                   amounts so transferred, including sepa-  
 12                   rately accounting for the portion of such  
 13                   distribution which is includible in gross in-  
 14                   come and the portion of such distribution  
 15                   which is not so includible, or

16                   “(ii) is an eligible retirement plan de-  
 17                   scribed in clause (i) or (ii) of section  
 18                   402(c)(8)(B).”.

19           (c) *RULES FOR APPLYING SECTION 72 TO IRAS.*—  
 20 Paragraph (3) of section 408(d) (relating to special rules  
 21 for applying section 72) is amended by inserting at the end  
 22 the following:

23                   “(H) *APPLICATION OF SECTION 72.*—

24                   “(i) *IN GENERAL.*—If—

1           “(I) a distribution is made from  
2           an individual retirement plan, and

3           “(II) a rollover contribution is  
4           made to an eligible retirement plan de-  
5           scribed in section 402(c)(8)(B)(iii),  
6           (iv), (v), or (vi) with respect to all or  
7           part of such distribution,

8           then, notwithstanding paragraph (2), the  
9           rules of clause (ii) shall apply for purposes  
10          of applying section 72.

11          “(ii) *APPLICABLE RULES.*—In the case  
12          of a distribution described in clause (i)—

13               “(I) section 72 shall be applied  
14               separately to such distribution,

15               “(II) notwithstanding the pro  
16               rata allocation of income on, and in-  
17               vestment in the contract, to distribu-  
18               tions under section 72, the portion of  
19               such distribution rolled over to an eli-  
20               gible retirement plan described in  
21               clause (i) shall be treated as from in-  
22               come on the contract (to the extent of  
23               the aggregate income on the contract  
24               from all individual retirement plans of  
25               the distributee), and

1                   “(III) appropriate adjustments  
 2                   shall be made in applying section 72 to  
 3                   other distributions in such taxable year  
 4                   and subsequent taxable years.”

5           (d) *EFFECTIVE DATE.*—The amendments made by this  
 6 section shall apply to distributions made after December 31,  
 7 2000.

8 **SEC. 1234. HARDSHIP EXCEPTION TO 60-DAY RULE.**

9           (a) *EXEMPT TRUSTS.*—Paragraph (3) of section  
 10 402(c) (relating to transfer must be made within 60 days  
 11 of receipt) is amended to read as follows:

12                   “(3) *TRANSFER MUST BE MADE WITHIN 60 DAYS*  
 13                   *OF RECEIPT.*—

14                   “(A) *IN GENERAL.*—Except as provided in  
 15 subparagraph (B), paragraph (1) shall not  
 16 apply to any transfer of a distribution made  
 17 after the 60th day following the day on which the  
 18 distributee received the property distributed.

19                   “(B) *HARDSHIP EXCEPTION.*—The Sec-  
 20 retary may waive the 60-day requirement under  
 21 subparagraph (A) where the failure to waive  
 22 such requirement would be against equity or  
 23 good conscience, including casualty, disaster, or  
 24 other events beyond the reasonable control of the  
 25 individual subject to such requirement.”.



1       (b) *IRAs*.—Paragraph (3) of section 408(d) (relating  
2 to rollover contributions) is amended by adding after sub-  
3 paragraph (H) the following new subparagraph:

4               “(I) *WAIVER OF 60-DAY REQUIREMENT*.—  
5       The Secretary may waive the 60-day require-  
6       ment under subparagraphs (A) and (D) where  
7       the failure to waive such requirement would be  
8       against equity or good conscience, including cas-  
9       ualty, disaster, or other events beyond the rea-  
10      sonable control of the individual subject to such  
11      requirement.”.

12      (c) *EFFECTIVE DATE*.—The amendments made by this  
13 section shall apply to distributions after December 31, 2000.

14 **SEC. 1235. TREATMENT OF FORMS OF DISTRIBUTION.**

15      (a) *PLAN TRANSFERS*.—

16              (1) *IN GENERAL*.—Paragraph (6) of section  
17 411(d) (relating to accrued benefit not to be decreased  
18 by amendment) is amended by adding at the end the  
19 following:

20                      “(D) *PLAN TRANSFERS*.—

21                              “(i) A defined contribution plan (in  
22 this subparagraph referred to as the ‘trans-  
23 feree plan’) shall not be treated as failing to  
24 meet the requirements of this subsection  
25 merely because the transferee plan does not

1           *provide some or all of the forms of distribu-*  
2           *tion previously available under another de-*  
3           *defined contribution plan (in this subpara-*  
4           *graph referred to as the ‘transferor plan’) to*  
5           *the extent that—*

6                     *“(I) the forms of distribution pre-*  
7                     *viously available under the transferor*  
8                     *plan applied to the account of a par-*  
9                     *ticipant or beneficiary under the*  
10                    *transferor plan that was transferred*  
11                    *from the transferor plan to the trans-*  
12                    *feree plan pursuant to a direct transfer*  
13                    *rather than pursuant to a distribution*  
14                    *from the transferor plan;*

15                    *“(II) the terms of both the trans-*  
16                    *feror plan and the transferee plan au-*  
17                    *thorize the transfer described in sub-*  
18                    *clause (I);*

19                    *“(III) the transfer described in*  
20                    *subclause (I) was made pursuant to a*  
21                    *voluntary election by the participant*  
22                    *or beneficiary whose account was*  
23                    *transferred to the transferee plan;*

24                    *“(IV) the election described in*  
25                    *subclause (III) was made after the par-*

1            *ticipant or beneficiary received a no-*  
2            *tice describing the consequences of*  
3            *making the election;*

4            “(V) *if the transferor plan pro-*  
5            *vides for an annuity as the normal*  
6            *form of distribution under the plan in*  
7            *accordance with section 417, the trans-*  
8            *fer is made with the consent of the par-*  
9            *ticipant’s spouse (if any), and such*  
10           *consent meets requirements similar to*  
11           *the requirements imposed by section*  
12           *417(a)(2); and*

13           “(VI) *the transferee plan allows*  
14           *the participant or beneficiary described*  
15           *in subclause (III) to receive any dis-*  
16           *tribution to which the participant or*  
17           *beneficiary is entitled under the trans-*  
18           *feree plan in the form of a single sum*  
19           *distribution.*

20           “(ii) *Clause (i) shall apply to plan*  
21           *mergers and other transactions having the*  
22           *effect of a direct transfer, including consoli-*  
23           *dations of benefits attributable to different*  
24           *employers within a multiple employer plan.*

1           “(E) *ELIMINATION OF FORM OF DISTRIBUTION.*—*Except to the extent provided in regula-*  
 2           *tions, a defined contribution plan shall not be*  
 3           *treated as failing to meet the requirements of this*  
 4           *section merely because of the elimination of a*  
 5           *form of distribution previously available there-*  
 6           *under. This subparagraph shall not apply to the*  
 7           *elimination of a form of distribution with re-*  
 8           *spect to any participant unless—*

10                   “(i) *a single sum payment is available*  
 11                   *to such participant at the same time or*  
 12                   *times as the form of distribution being*  
 13                   *eliminated; and*

14                   “(ii) *such single sum payment is based*  
 15                   *on the same or greater portion of the par-*  
 16                   *ticipant’s account as the form of distribu-*  
 17                   *tion being eliminated.”.*

18           (2) *EFFECTIVE DATE.*—*The amendment made by*  
 19           *this subsection shall apply to years beginning after*  
 20           *December 31, 2000.*

21           (b) *REGULATIONS.*—

22                   (1) *IN GENERAL.*—*The last sentence of para-*  
 23                   *graph (6)(B) of section 411(d) (relating to accrued*  
 24                   *benefit not to be decreased by amendment) is amended*  
 25                   *to read as follows: “The Secretary may by regulations*

1     *provide that this subparagraph shall not apply to*  
 2     *any plan amendment that does not adversely affect*  
 3     *the rights of participants in a material manner.”.*

4           (2) *SECRETARY DIRECTED.*—*Not later than De-*  
 5     *cember 31, 2001, the Secretary of the Treasury is di-*  
 6     *rected to issue final regulations under section*  
 7     *411(d)(6) of the Internal Revenue Code of 1986. Such*  
 8     *regulations shall apply to plan years beginning after*  
 9     *December 31, 2001, or such earlier date as is specified*  
 10    *by the Secretary of the Treasury.*

11 **SEC. 1236. RATIONALIZATION OF RESTRICTIONS ON DIS-**  
 12       **TRIBUTIONS.**

13       (a) *MODIFICATION OF SAME DESK EXCEPTION.*—

14           (1) *SECTION 401(k).*—

15               (A) *Section 401(k)(2)(B)(i)(I) (relating to*  
 16     *qualified cash or deferred arrangements) is*  
 17     *amended by striking “separation from service”*  
 18     *and inserting “severance from employment”.*

19               (B) *Subparagraph (A) of section 401(k)(10)*  
 20     *(relating to distributions upon termination of*  
 21     *plan or disposition of assets or subsidiary) is*  
 22     *amended to read as follows:*

23                   “(A) *IN GENERAL.*—*An event described in*  
 24     *this subparagraph is the termination of the plan*  
 25     *without establishment or maintenance of another*

1       *defined contribution plan (other than an em-*  
 2       *ployee stock ownership plan as defined in section*  
 3       *4975(e)(7)).”.*

4               *(C) Section 401(k)(10) is amended—*

5                     *(i) in subparagraph (B)—*

6                             *(I) by striking “An event” in*  
 7                             *clause (i) and inserting “A termi-*  
 8                             *nation”, and*

9                             *(II) by striking “the event” in*  
 10                            *clause (i) and inserting “the termi-*  
 11                            *nation”,*

12                          *(ii) by striking subparagraph (C), and*

13                          *(iii) by striking “OR DISPOSITION OF*  
 14                          *ASSETS OR SUBSIDIARY” in the heading.*

15       *(2) SECTION 403(b).—*

16               *(A) Paragraphs (7)(A)(ii) and (11)(A) of*  
 17       *section 403(b) are each amended by striking*  
 18       *“separates from service” and inserting “has a*  
 19       *severance from employment”.*

20               *(B) The heading for paragraph (11) of sec-*  
 21       *tion 403(b) is amended by striking “SEPARATION*  
 22       *FROM SERVICE” and inserting “SEVERANCE*  
 23       *FROM EMPLOYMENT”.*

24       *(3) SECTION 457.—Clause (ii) of section*  
 25       *457(d)(1)(A) is amended by striking “is separated*

1       *from service” and inserting “has a severance from*  
 2       *employment”.*

3       **(b) EFFECTIVE DATE.**—*The amendments made by this*  
 4       *section shall apply to distributions after December 31, 2000.*

5       **SEC. 1237. PURCHASE OF SERVICE CREDIT IN GOVERN-**  
 6       **MENTAL DEFINED BENEFIT PLANS.**

7       **(a) 403(b) PLANS.**—*Subsection (b) of section 403 is*  
 8       *amended by adding at the end the following new paragraph:*

9               “(13) **TRUSTEE-TO-TRUSTEE TRANSFERS TO**  
 10       **PURCHASE PERMISSIVE SERVICE CREDIT.**—*No*  
 11       *amount shall be includible in gross income by reason*  
 12       *of a direct trustee-to-trustee transfer to a defined ben-*  
 13       *efit governmental plan (as defined in section 414(d))*  
 14       *if such transfer is—*

15               “(A) *for the purchase of permissive service*  
 16       *credit (as defined in section 415(n)(3)(A)) under*  
 17       *such plan, or*

18               “(B) *a repayment to which section 415 does*  
 19       *not apply by reason of subsection (k)(3) there-*  
 20       *of.”.*

21       **(b) 457 PLANS.**—

22               **(1)** *Subsection (e) of section 457 is amended by*  
 23       *adding after paragraph (17) the following new para-*  
 24       *graph:*

1           “(18) *TRUSTEE-TO-TRUSTEE TRANSFERS TO*  
 2           *PURCHASE PERMISSIVE SERVICE CREDIT.*—No  
 3           *amount shall be includible in gross income by reason*  
 4           *of a direct trustee-to-trustee transfer to a defined ben-*  
 5           *efit governmental plan (as defined in section 414(d))*  
 6           *if such transfer is—*

7                     “(A) *for the purchase of permissive service*  
 8                     *credit (as defined in section 415(n)(3)(A)) under*  
 9                     *such plan, or*

10                    “(B) *a repayment to which section 415 does*  
 11                    *not apply by reason of subsection (k)(3) there-*  
 12                    *of.”.*

13           (2) *Section 457(b)(2) is amended by striking*  
 14           *“(other than rollover amounts)” and inserting “(other*  
 15           *than rollover amounts and amounts received in a*  
 16           *transfer referred to in subsection (e)(16))”.*

17           (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 18           *section shall apply to trustee-to-trustee transfers after De-*  
 19           *cember 31, 2000.*

20   **SEC. 1238. EMPLOYERS MAY DISREGARD ROLLOVERS FOR**  
 21           **PURPOSES OF CASH-OUT AMOUNTS.**

22           (a) *IN GENERAL.*—*Section 411(a)(11) (relating to re-*  
 23           *strictions on certain mandatory distributions) is amended*  
 24           *by adding at the end the following:*



1                   “(D) *SPECIAL RULE FOR ROLLOVER CON-*  
 2                   *TRIBUTIONS.*—A plan shall not fail to meet the  
 3                   requirements of this paragraph if, under the  
 4                   terms of the plan, the present value of the non-  
 5                   forfeitable accrued benefit is determined without  
 6                   regard to that portion of such benefit which is  
 7                   attributable to rollover contributions (and earn-  
 8                   ings allocable thereto). For purposes of this sub-  
 9                   paragraph, the term ‘rollover contributions’  
 10                  means any rollover contribution under sections  
 11                  402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii),  
 12                  and 457(e)(16).”.

13               (b) *ELIGIBLE DEFERRED COMPENSATION PLANS.*—  
 14               Clause (i) of section 457(e)(9)(A) is amended by striking  
 15               “such amount” and inserting “the portion of such amount  
 16               which is not attributable to rollover contributions (as de-  
 17               fined in section 411(a)(11)(D))”.

18               (c) *EFFECTIVE DATE.*—The amendments made by this  
 19               section shall apply to distributions after December 31, 2000.

20       **SEC. 1239. MINIMUM DISTRIBUTION AND INCLUSION RE-**  
 21               **QUIREMENTS FOR SECTION 457 PLANS.**

22               (a) *MINIMUM DISTRIBUTION REQUIREMENTS.*—Para-  
 23               graph (2) of section 457(d) (relating to distribution require-  
 24               ments) is amended to read as follows:

1           “(2) *MINIMUM DISTRIBUTION REQUIREMENTS.*—  
 2       *A plan meets the minimum distribution requirements*  
 3       *of this paragraph if such plan meets the requirements*  
 4       *of section 401(a)(9).”*

5       **(b) *INCLUSION IN GROSS INCOME.*—**

6           **(1) *YEAR OF INCLUSION.***—*Subsection (a) of sec-*  
 7       *tion 457 (relating to year of inclusion in gross in-*  
 8       *come) is amended to read as follows:*

9       **“(a) *YEAR OF INCLUSION IN GROSS INCOME.*—**

10           **“(1) *IN GENERAL.***—*Any amount of compensa-*  
 11       *tion deferred under an eligible deferred compensation*  
 12       *plan, and any income attributable to the amounts so*  
 13       *deferred, shall be includible in gross income only for*  
 14       *the taxable year in which such compensation or other*  
 15       *income—*

16           **“(A) is paid to the participant or other ben-**  
 17       *eficiary, in the case of a plan of an eligible em-*  
 18       *ployer described in subsection (e)(1)(A), and*

19           **“(B) is paid or otherwise made available to**  
 20       *the participant or other beneficiary, in the case*  
 21       *of a plan of an eligible employer described in*  
 22       *subsection (e)(1)(B).*

23       **“(2) *SPECIAL RULE FOR ROLLOVER AMOUNTS.*—**  
 24       *To the extent provided in section 72(t)(9), section*

1       72(t) shall apply to any amount includible in gross  
2       income under this subsection.”.

3               (2) *CONFORMING AMENDMENT.*—So much of  
4       paragraph (9) of section 457(e) as precedes subpara-  
5       graph (A) is amended to read as follows:

6               “(9) *BENEFITS OF TAX EXEMPT ORGANIZATION*  
7       *PLANS NOT TREATED AS MADE AVAILABLE BY REASON*  
8       *OF CERTAIN ELECTIONS, ETC.*—In the case of an eligi-  
9       ble deferred compensation plan of an employer de-  
10      scribed in subsection (e)(1)(B)—”.

11      (c) *EFFECTIVE DATE.*—The amendments made by this  
12      section shall apply to distributions after December 31, 2000.

13      ***Subtitle D—Strengthening Pension***  
14      ***Security and Enforcement***

15      ***SEC. 1241. REPEAL OF 150 PERCENT OF CURRENT LIABILITY***  
16      ***FUNDING LIMIT.***

17      (a) *IN GENERAL.*—Section 412(c)(7) (relating to full-  
18      funding limitation) is amended—

19              (1) by striking “the applicable percentage” in  
20      subparagraph (A)(i)(I) and inserting “in the case of  
21      plan years beginning before January 1, 2004, the ap-  
22      plicable percentage”, and

23              (2) by amending subparagraph (F) to read as  
24      follows:

1           “(F) *APPLICABLE PERCENTAGE*.—For pur-  
 2           poses of subparagraph (A)(i)(I), the applicable  
 3           percentage shall be determined in accordance  
 4           with the following table:

<b>“In the case of any plan year beginning in—</b>	<b>The applicable percentage is—</b>
2001 .....	160
2002 .....	165
2003 .....	170.”.

5           (b) *EFFECTIVE DATE*.—The amendments made by this  
 6           section shall apply to plan years beginning after December  
 7           31, 2000.

8           **SEC. 1242. MAXIMUM CONTRIBUTION DEDUCTION RULES**  
 9                               **MODIFIED AND APPLIED TO ALL DEFINED**  
 10                              **BENEFIT PLANS.**

11          (a) *IN GENERAL*.—Subparagraph (D) of section  
 12          404(a)(1) (relating to special rule in case of certain plans)  
 13          is amended to read as follows:

14                       “(D) *SPECIAL RULE IN CASE OF CERTAIN*  
 15                       *PLANS*.—

16                       “(i) *IN GENERAL*.—In the case of any  
 17                       defined benefit plan, except as provided in  
 18                       regulations, the maximum amount deduct-  
 19                       ible under the limitations of this paragraph  
 20                       shall not be less than the unfunded termi-  
 21                       nation liability (determined as if the pro-  
 22                       posed termination date referred to in section  
 23                       4041(b)(2)(A)(i)(II) of the Employee Retire-

1            *ment Income Security Act of 1974 were the*  
2            *last day of the plan year).*

3            “(ii) *PLANS WITH LESS THAN 100 PAR-*  
4            *TICIPANTS.—For purposes of this subpara-*  
5            *graph, in the case of a plan which has less*  
6            *than 100 participants for the plan year,*  
7            *termination liability shall not include the*  
8            *liability attributable to benefit increases for*  
9            *highly compensated employees (as defined*  
10           *in section 414(q)) resulting from a plan*  
11           *amendment which is made or becomes effec-*  
12           *tive, whichever is later, within the last 2*  
13           *years before the termination date.*

14           “(iii) *RULE FOR DETERMINING NUM-*  
15           *BER OF PARTICIPANTS.—For purposes of de-*  
16           *termining whether a plan has more than*  
17           *100 participants, all defined benefit plans*  
18           *maintained by the same employer (or any*  
19           *member of such employer’s controlled group*  
20           *(within the meaning of section*  
21           *412(l)(8)(C))) shall be treated as 1 plan, but*  
22           *only employees of such member or employer*  
23           *shall be taken into account.*

24           “(iv) *PLANS ESTABLISHED AND MAIN-*  
25           *TAIN BY PROFESSIONAL SERVICE EMPLOY-*

1           *ERS.—Clause (i) shall not apply to a plan*  
 2           *described in section 4021(b)(13) of the Em-*  
 3           *ployee Retirement Income Security Act of*  
 4           *1974.”.*

5           **(b) CONFORMING AMENDMENT.**—*Paragraph (6) of sec-*  
 6           *tion 4972(c) is amended to read as follows:*

7           “(6) **EXCEPTIONS.**—*In determining the amount*  
 8           *of nondeductible contributions for any taxable year,*  
 9           *there shall not be taken into account so much of the*  
 10           *contributions to 1 or more defined contribution plans*  
 11           *which are not deductible when contributed solely be-*  
 12           *cause of section 404(a)(7) as does not exceed the great-*  
 13           *er of—*

14           “(A) *the amount of contributions not in ex-*  
 15           *cess of 6 percent of compensation (within the*  
 16           *meaning of section 404(a)) paid or accrued (dur-*  
 17           *ing the taxable year for which the contributions*  
 18           *were made) to beneficiaries under the plans, or*

19           “(B) *the sum of—*

20           “(i) *the amount of contributions de-*  
 21           *scribed in section 401(m)(4)(A), plus*

22           “(ii) *the amount of contributions de-*  
 23           *scribed in section 402(g)(3)(A).*

24           *For purposes of this paragraph, the deductible limits*  
 25           *under section 404(a)(7) shall first be applied to*

1        *amounts contributed to a defined benefit plan and*  
 2        *then to amounts described in subparagraph (B).”.*

3        *(c) EFFECTIVE DATE.—The amendments made by this*  
 4        *section shall apply to plan years beginning after December*  
 5        *31, 2000.*

6        **SEC. 1243. MISSING PARTICIPANTS.**

7        *(a) IN GENERAL.—Section 4050 of the Employee Re-*  
 8        *tirement Income Security Act of 1974 (29 U.S.C. 1350) is*  
 9        *amended by redesignating subsection (c) as subsection (e)*  
 10       *and by inserting after subsection (b) the following:*

11       *“(c) MULTIEmployer PLANS.—The corporation shall*  
 12       *prescribe rules similar to the rules in subsection (a) for mul-*  
 13       *tiemployer plans covered by this title that terminate under*  
 14       *section 4041A.*

15       *“(d) PLANS NOT OTHERWISE SUBJECT TO TITLE.—*

16       *“(1) TRANSFER TO CORPORATION.—The plan ad-*  
 17       *ministrator of a plan described in paragraph (4) may*  
 18       *elect to transfer a missing participant’s benefits to the*  
 19       *corporation upon termination of the plan.*

20       *“(2) INFORMATION TO THE CORPORATION.—To*  
 21       *the extent provided in regulations, the plan adminis-*  
 22       *trator of a plan described in paragraph (4) shall,*  
 23       *upon termination of the plan, provide the corporation*  
 24       *information with respect to benefits of a missing par-*  
 25       *ticipant if the plan transfers such benefits—*

1                   “(A) to the corporation, or

2                   “(B) to an entity other than the corporation  
3                   or a plan described in paragraph (4)(B)(ii).

4                   “(3) *PAYMENT BY THE CORPORATION.*—If bene-  
5                   fits of a missing participant were transferred to the  
6                   corporation under paragraph (1), the corporation  
7                   shall, upon location of the participant or beneficiary,  
8                   pay to the participant or beneficiary the amount  
9                   transferred (or the appropriate survivor benefit)  
10                  either—

11                  “(A) in a single sum (plus interest), or

12                  “(B) in such other form as is specified in  
13                  regulations of the corporation.

14                  “(4) *PLANS DESCRIBED.*—A plan is described in  
15                  this paragraph if—

16                  “(A) the plan is a pension plan (within the  
17                  meaning of section 3(2))—

18                  “(i) to which the provisions of this sec-  
19                  tion do not apply (without regard to this  
20                  subsection), and

21                  “(ii) which is not a plan described in  
22                  paragraphs (2) through (11) of section  
23                  4021(b), and

24                  “(B) at the time the assets are to be distrib-  
25                  uted upon termination, the plan—



1                   “(i) has missing participants, and  
2                   “(ii) has not provided for the transfer  
3                 of assets to pay the benefits of all missing  
4                 participants to another pension plan (with-  
5                 in the meaning of section 3(2)).

6 “(5) CERTAIN PROVISIONS NOT TO APPLY.—Sub-  
7 sections (a)(1) and (a)(3) shall not apply to a plan  
8 described in paragraph (4).”.

9 (b) *EFFECTIVE DATE.*—*The amendment made by this*  
10 *section shall apply to distributions made after final regula-*  
11 *tions implementing subsections (c) and (d) of section 4050*  
12 *of the Employee Retirement Income Security Act of 1974*  
13 *(as added by subsection (a)), respectively, are prescribed.*

14 *SEC. 1244. EXCISE TAX RELIEF FOR SOUND PENSION FUND-*  
15 *ING.*

16           (a) *IN GENERAL.*—Subsection (c) of section 4972 (re-  
17       lating to nondeductible contributions) is amended by add-  
18       ing at the end the following new paragraph:

“(7) *DEFINED BENEFIT PLAN EXCEPTION.*—In determining the amount of nondeductible contributions for any taxable year, an employer may elect for such year not to take into account any contributions to a defined benefit plan except to the extent that such contributions exceed the full-funding limitation (as defined in section 412(c)(7), determined without re-

1        *gard to subparagraph (A)(i)(I) thereof). For purposes*  
 2        *of this paragraph, the deductible limits under section*  
 3        *404(a)(7) shall first be applied to amounts contrib-*  
 4        *uted to defined contribution plans and then to*  
 5        *amounts described in this paragraph. If an employer*  
 6        *makes an election under this paragraph for a taxable*  
 7        *year, paragraph (6) shall not apply to such employer*  
 8        *for such taxable year.”.*

9        *(b) EFFECTIVE DATE.—The amendments made by this*  
 10       *section shall apply to years beginning after December 31,*  
 11       *2000.*

12       **SEC. 1245. EXCISE TAX ON FAILURE TO PROVIDE NOTICE BY**  
 13                                **DEFINED BENEFIT PLANS SIGNIFICANTLY RE-**  
 14                                **DUCING FUTURE BENEFIT ACCRUALS.**

15       *(a) IN GENERAL.—Chapter 43 of subtitle D (relating*  
 16       *to qualified pension, etc., plans) is amended by adding at*  
 17       *the end the following new section:*

18       **“SEC. 4980F. FAILURE OF APPLICABLE PLANS REDUCING**  
 19                                **BENEFIT ACCRUALS TO SATISFY NOTICE RE-**  
 20                                **QUIREMENTS.**

21       *“(a) IMPOSITION OF TAX.—There is hereby imposed a*  
 22       *tax on the failure of any applicable pension plan to meet*  
 23       *the requirements of subsection (e) with respect to any appli-*  
 24       *cable individual.*

25       *“(b) AMOUNT OF TAX.—*

1           “(1) *IN GENERAL.*—*The amount of the tax im-*  
 2           *posed by subsection (a) on any failure with respect to*  
 3           *any applicable individual shall be \$100 for each day*  
 4           *in the noncompliance period with respect to such fail-*  
 5           *ure.*

6           “(2) *NONCOMPLIANCE PERIOD.*—*For purposes of*  
 7           *this section, the term ‘noncompliance period’ means,*  
 8           *with respect to any failure, the period beginning on*  
 9           *the date the failure first occurs and ending on the*  
 10          *date the failure is corrected.*

11          “(c) *LIMITATIONS ON AMOUNT OF TAX.*—

12           “(1) *OVERALL LIMITATION FOR UNINTENTIONAL*  
 13           *FAILURES.*—*In the case of failures that are due to*  
 14           *reasonable cause and not to willful neglect, the tax*  
 15           *imposed by subsection (a) for failures during the tax-*  
 16           *able year of the employer (or, in the case of a multi-*  
 17           *employer plan, the taxable year of the trust forming*  
 18           *part of the plan) shall not exceed \$500,000. For pur-*  
 19           *poses of the preceding sentence, all multiemployer*  
 20           *plans of which the same trust forms a part shall be*  
 21           *treated as 1 plan. For purposes of this paragraph, if*  
 22           *not all persons who are treated as a single employer*  
 23           *for purposes of this section have the same taxable*  
 24           *year, the taxable years taken into account shall be de-*

1       *terminated under principles similar to the principles of*  
2       *section 1561.*

3               “(2) *WAIVER BY SECRETARY.*—*In the case of a*  
4       *failure which is due to reasonable cause and not to*  
5       *willful neglect, the Secretary may waive part or all*  
6       *of the tax imposed by subsection (a) to the extent that*  
7       *the payment of such tax would be excessive relative to*  
8       *the failure involved.*

9               “(d) *LIABILITY FOR TAX.*—*The following shall be lia-*  
10      *ble for the tax imposed by subsection (a):*

11              “(1) *In the case of a plan other than a multiem-*  
12      *ployer plan, the employer.*

13              “(2) *In the case of a multiemployer plan, the*  
14      *plan.*

15              “(e) *NOTICE REQUIREMENTS FOR PLANS SIGNIFI-*  
16      *CANTLY REDUCING BENEFIT ACCRUALS.*—

17              “(1) *IN GENERAL.*—*If an applicable pension*  
18      *plan is amended to provide for a significant reduc-*  
19      *tion in the rate of future benefit accrual, the plan ad-*  
20      *ministrator shall provide written notice to each ap-*  
21      *plicable individual (and to each employee organiza-*  
22      *tion representing applicable individuals).*

23              “(2) *NOTICE.*—*The notice required by paragraph*  
24      *(1) shall be written in a manner calculated to be un-*  
25      *derstood by the average plan participant and shall*

1        *provide sufficient information (as determined in ac-*  
2        *cordance with regulations prescribed by the Sec-*  
3        *retary) to allow applicable individuals to understand*  
4        *the effect of the plan amendment.*

5            *“(3) TIMING OF NOTICE.—Except as provided in*  
6        *regulations, the notice required by paragraph (1)*  
7        *shall be provided within a reasonable time before the*  
8        *effective date of the plan amendment.*

9            *“(4) DESIGNEES.—Any notice under paragraph*  
10       *(1) may be provided to a person designated, in writ-*  
11       *ing, by the person to which it would otherwise be pro-*  
12       *vided.*

13           *“(5) NOTICE BEFORE ADOPTION OF AMEND-*  
14       *MENT.—A plan shall not be treated as failing to meet*  
15       *the requirements of paragraph (1) merely because no-*  
16       *tice is provided before the adoption of the plan*  
17       *amendment if no material modification of the amend-*  
18       *ment occurs before the amendment is adopted.*

19           *“(f) APPLICABLE INDIVIDUAL; APPLICABLE PENSION*  
20       *PLAN.—For purposes of this section—*

21           *“(1) APPLICABLE INDIVIDUAL.—The term ‘appli-*  
22       *cable individual’ means, with respect to any plan*  
23       *amendment—*

24           *“(A) any participant in the plan, and*

1           “(B) any beneficiary who is an alternate  
 2           payee (within the meaning of section 414(p)(8))  
 3           under an applicable qualified domestic relations  
 4           order (within the meaning of section  
 5           414(p)(1)(A)),  
 6           who may reasonably be expected to be affected by such  
 7           plan amendment.

8           “(2) *APPLICABLE PENSION PLAN.*—The term ‘ap-  
 9           plicable pension plan’ means—

10           “(A) any defined benefit plan, or

11           “(B) an individual account plan which is  
 12           subject to the funding standards of section 412,  
 13           which had 100 or more participants who had accrued  
 14           a benefit, or with respect to whom contributions were  
 15           made, under the plan (whether or not vested) as of the  
 16           last day of the plan year preceding the plan year in  
 17           which the plan amendment becomes effective.”

18           (b) *CLERICAL AMENDMENT.*—The table of sections for  
 19           chapter 43 of subtitle D is amended by adding at the end  
 20           the following new item:

          “Sec. 4980F. Failure of applicable plans reducing benefit accruals to satisfy notice  
           requirements.”

21           (c) *EFFECTIVE DATES.*—

22           (1) *IN GENERAL.*—The amendments made by  
 23           this section shall apply to plan amendments taking  
 24           effect on or after the date of the enactment of this Act.

1           (2) *TRANSITION.*—Until such time as the Sec-  
 2       retary of the Treasury issues regulations under sec-  
 3       tions 4980F(e)(2) and (3) of the Internal Revenue  
 4       Code of 1986 (as added by the amendment made by  
 5       subsection (a)), a plan shall be treated as meeting the  
 6       requirements of such section if it makes a good faith  
 7       effort to comply with such requirements.

8           (3) *SPECIAL RULE.*—The period for providing  
 9       any notice required by the amendments made by this  
 10      section shall not end before the date which is 3  
 11      months after the date of the enactment of this Act.

12       ***Subtitle E—Reducing Regulatory***  
 13                               ***Burdens***

14       ***SEC. 1251. REPEAL OF THE MULTIPLE USE TEST.***

15       (a) *IN GENERAL.*—Paragraph (9) of section 401(m) is  
 16      amended to read as follows:

17           “(9) *REGULATIONS.*—The Secretary shall pre-  
 18      scribe such regulations as may be necessary to carry  
 19      out the purposes of this subsection and subsection (k),  
 20      including regulations permitting appropriate aggre-  
 21      gation of plans and contributions.”.

22       (b) *EFFECTIVE DATE.*—The amendment made by this  
 23      section shall apply to years beginning after December 31,  
 24      2000.

1 **SEC. 1252. MODIFICATION OF TIMING OF PLAN VALU-**  
 2 **ATIONS.**

3 (a) *IN GENERAL.*—Section 412(c)(9) (relating to an-  
 4 nual valuation) is amended—

5 (1) by striking “For purposes” and inserting the  
 6 following:

7 “(A) *IN GENERAL.*—For purposes”, and

8 (2) by adding at the end the following:

9 “(B) *ELECTION TO USE PRIOR YEAR VALU-*  
 10 *ATION.*—

11 “(i) *IN GENERAL.*—Except as provided  
 12 in clause (ii), if, for any plan year—

13 “(I) an election is in effect under  
 14 this subparagraph with respect to a  
 15 plan, and

16 “(II) the assets of the plan are not  
 17 less than 125 percent of the plan’s cur-  
 18 rent liability (as defined in paragraph  
 19 (7)(B)), determined as of the valuation  
 20 date for the preceding plan year,

21 then this section shall be applied using the  
 22 information available as of such valuation  
 23 date.

24 “(ii) *EXCEPTIONS.*—

25 “(I) *ACTUAL VALUATION EVERY 3*  
 26 *YEARS.*—Clause (i) shall not apply for



1            *more than 2 consecutive plan years*  
 2            *and valuation shall be under subpara-*  
 3            *graph (A) with respect to any plan*  
 4            *year to which clause (i) does not apply*  
 5            *by reason of this clause.*

6            “(II) *REGULATIONS.*—Subclause  
 7            (I) shall not apply to the extent that  
 8            more frequent valuations are required  
 9            under the regulations under subpara-  
 10          graph (A).

11          “(iii) *ADJUSTMENTS.*—Information  
 12          under clause (i) shall, in accordance with  
 13          regulations, be actuarially adjusted to re-  
 14          flect significant differences in participants.

15          “(iv) *ELECTION.*—An election under  
 16          this subparagraph, once made, shall be ir-  
 17          revocable without the consent of the Sec-  
 18          retary.”.

19          (b) *EFFECTIVE DATE.*—The amendments made by this  
 20          section shall apply to plan years beginning after December  
 21          31, 2000.

22          **SEC. 1253. FLEXIBILITY AND NONDISCRIMINATION AND**  
 23          **LINE OF BUSINESS RULES.**

24          *The Secretary of the Treasury shall, on or before De-*  
 25          *cember 31, 2000, modify the existing regulations issued*

1 *under section 401(a)(4) and section 414(r) of the Internal*  
 2 *Revenue Code of 1986 in order to expand (to the extent that*  
 3 *the Secretary determines appropriate) the ability of a pen-*  
 4 *sion plan to demonstrate compliance with the non-*  
 5 *discrimination and line of business requirements based*  
 6 *upon the facts and circumstances surrounding the design*  
 7 *and operation of the plan, even though the plan is unable*  
 8 *to satisfy the mechanical tests currently used to determine*  
 9 *compliance.*

10 **SEC. 1254. SUBSTANTIAL OWNER BENEFITS IN TERMINATED**  
 11 **PLANS.**

12 *(a) MODIFICATION OF PHASE-IN OF GUARANTEE.—*  
 13 *Section 4022(b)(5) of the Employee Retirement Income Se-*  
 14 *curity Act of 1974 (29 U.S.C. 1322(b)(5)) is amended to*  
 15 *read as follows:*

16 *“(5)(A) For purposes of this paragraph, the term ‘ma-*  
 17 *jority owner’ means an individual who, at any time during*  
 18 *the 60-month period ending on the date the determination*  
 19 *is being made—*

20 *“(i) owns the entire interest in an unincor-*  
 21 *porated trade or business,*

22 *“(ii) in the case of a partnership, is a partner*  
 23 *who owns, directly or indirectly, 50 percent or more*  
 24 *of either the capital interest or the profits interest in*  
 25 *such partnership, or*

1           “(iii) in the case of a corporation, owns, directly  
2           or indirectly, 50 percent or more in value of either the  
3           voting stock of that corporation or all the stock of that  
4           corporation.

5           For purposes of clause (iii), the constructive ownership  
6           rules of section 1563(e) of the Internal Revenue Code of  
7           1986 shall apply (determined without regard to section  
8           1563(e)(3)(C)).

9           “(B) In the case of a participant who is a majority  
10          owner, the amount of benefits guaranteed under this section  
11          shall equal the product of—

12               “(i) a fraction (not to exceed 1) the numerator  
13               of which is the number of years from the later of the  
14               effective date or the adoption date of the plan to the  
15               termination date, and the denominator of which is  
16               10, and

17               “(ii) the amount of benefits that would be guar-  
18               anteed under this section if the participant were not  
19               a majority owner.”.

20          (b) MODIFICATION OF ALLOCATION OF ASSETS.—

21               (1) Section 4044(a)(4)(B) of the Employee Re-  
22               irement Income Security Act of 1974 (29 U.S.C.  
23               1344(a)(4)(B)) is amended by striking “section  
24               4022(b)(5)” and inserting “section 4022(b)(5)(B)”.

1           (2) Section 4044(b) of such Act (29 U.S.C.  
2   1344(b)) is amended—

3           (A) by striking “(5)” in paragraph (2) and  
4           inserting “(4), (5),”, and

5           (B) by redesignating paragraphs (3)  
6           through (6) as paragraphs (4) through (7), re-  
7           spectively, and by inserting after paragraph (2)  
8           the following:

9           “(3) If assets available for allocation under  
10          paragraph (4) of subsection (a) are insufficient to sat-  
11          isfy in full the benefits of all individuals who are de-  
12          scribed in that paragraph, the assets shall be allocated  
13          first to benefits described in subparagraph (A) of that  
14          paragraph. Any remaining assets shall then be allo-  
15          cated to benefits described in subparagraph (B) of  
16          that paragraph. If assets allocated to such subpara-  
17          graph (B) are insufficient to satisfy in full the bene-  
18          fits described in that subparagraph, the assets shall be  
19          allocated pro rata among individuals on the basis of  
20          the present value (as of the termination date) of their  
21          respective benefits described in that subparagraph.”.

22          (c) CONFORMING AMENDMENTS.—

23           (1) Section 4021 of the Employee Retirement In-  
24          come Security Act of 1974 (29 U.S.C. 1321) is  
25          amended—

1                   (A) in subsection (b)(9), by striking “as de-  
2                   fined in section 4022(b)(6)”, and

3                   (B) by adding at the end the following:

4           “(d) For purposes of subsection (b)(9), the term ‘sub-  
5           stantial owner’ means an individual who, at any time dur-  
6           ing the 60-month period ending on the date the determina-  
7           tion is being made—

8                   “(1) owns the entire interest in an unincor-  
9                   porated trade or business,

10                   “(2) in the case of a partnership, is a partner  
11                   who owns, directly or indirectly, more than 10 per-  
12                   cent of either the capital interest or the profits inter-  
13                   est in such partnership, or

14                   “(3) in the case of a corporation, owns, directly  
15                   or indirectly, more than 10 percent in value of either  
16                   the voting stock of that corporation or all the stock of  
17                   that corporation.

18           For purposes of paragraph (3), the constructive ownership  
19           rules of section 1563(e) of the Internal Revenue Code of  
20           1986 shall apply (determined without regard to section  
21           1563(e)(3)(C)).”.

22           (2) Section 4043(c)(7) of such Act (29 U.S.C.  
23           1343(c)(7)) is amended by striking “section 4022(b)(6)”  
24           and inserting “section 4021(d)”.

25           (d) *EFFECTIVE DATES.*—

(1) *IN GENERAL.*—*Except as provided in paragraph (2), the amendments made by this section shall apply to plan terminations—*

*(A) under section 4041(c) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1341(c)) with respect to which notices of intent to terminate are provided under section 4041(a)(2) of such Act (29 U.S.C. 1341(a)(2)) after December 31, 2000, and*

*(B) under section 4042 of such Act (29 U.S.C. 1342) with respect to which proceedings are instituted by the corporation after such date.*

(2) *CONFORMING AMENDMENTS.*—*The amendments made by subsection (c) shall take effect on the date of enactment of this Act.*

**SEC. 1255. ESOP DIVIDENDS MAY BE REINVESTED WITHOUT  
LOSS OF DIVIDEND DEDUCTION.**

(a) *IN GENERAL.*—*Section 404(k)(2)(A) (defining applicable dividends) is amended by striking “or” at the end of clause (ii), by redesignating clause (iii) as clause (iv), and by inserting after clause (ii) the following new clause:*

*“(iii) is, at the election of such participants or their beneficiaries—*

*“(I) payable as provided in clause  
(i) or (ii), or*

1                   “(II) paid to the plan and rein-  
 2                   vested in qualifying employer securi-  
 3                   ties, or”.

4           (b) *EFFECTIVE DATE.*—*The amendments made by this*  
 5 *section shall apply to taxable years beginning after Decem-*  
 6 *ber 31, 2000.*

7   **SEC. 1256. NOTICE AND CONSENT PERIOD REGARDING DIS-**  
 8                   **TRIBUTIONS.**

9           (a) *EXPANSION OF PERIOD.*—

10                   (1) *IN GENERAL.*—*Subparagraph (A) of section*  
 11 *417(a)(6) is amended by striking “90-day” and in-*  
 12 *serting “180-day”.*

13                   (2) *MODIFICATION OF REGULATIONS.*—*The Sec-*  
 14 *retary of the Treasury shall modify the regulations*  
 15 *under sections 402(f), 411(a)(11), and 417 of the In-*  
 16 *ternal Revenue Code of 1986 to substitute “180 days”*  
 17 *for “90 days” each place it appears in Treasury Reg-*  
 18 *ulations sections 1.402(f)–1, 1.411(a)–11(c), and*  
 19 *1.417(e)–1(b).*

20                   (3) *EFFECTIVE DATE.*—*The amendments made*  
 21 *by paragraph (1) and the modifications required by*  
 22 *paragraph (2) shall apply to years beginning after*  
 23 *December 31, 2000.*

24           (b) *CONSENT REGULATION INAPPLICABLE TO CERTAIN*  
 25 *DISTRIBUTIONS.*—

1           (1) *IN GENERAL.*—*The Secretary of the Treasury*  
 2           *shall modify the regulations under section 411(a)(11)*  
 3           *of the Internal Revenue Code of 1986 to provide that*  
 4           *the description of a participant’s right, if any, to*  
 5           *defer receipt of a distribution shall also describe the*  
 6           *consequences of failing to defer such receipt.*

7           (2) *EFFECTIVE DATE.*—*The modifications re-*  
 8           *quired by paragraph (1) shall apply to years begin-*  
 9           *ning after December 31, 2000.*

10 **SEC. 1257. REPEAL OF TRANSITION RULE RELATING TO**  
 11 **CERTAIN HIGHLY COMPENSATED EMPLOY-**  
 12 **EES.**

13           (a) *IN GENERAL.*—*Paragraph (4) of section 1114(c)*  
 14 *of the Tax Reform Act of 1986 is hereby repealed.*

15           (b) *EFFECTIVE DATE.*—*The repeal made by subsection*  
 16 *(a) shall apply to plan years beginning after December 31,*  
 17 *2000.*

18 **SEC. 1258. EMPLOYEES OF TAX-EXEMPT ENTITIES.**

19           (a) *IN GENERAL.*—*The Secretary of the Treasury shall*  
 20 *modify Treasury Regulations section 1.410(b)–6(g) to pro-*  
 21 *vide that employees of an organization described in section*  
 22 *403(b)(1)(A)(i) of the Internal Revenue Code of 1986 who*  
 23 *are eligible to make contributions under section 403(b) pur-*  
 24 *suant to a salary reduction agreement may be treated as*  
 25 *excludable with respect to a plan under section 401(k), or*



1 section 401(m) of such Code that is provided under the same  
 2 general arrangement as a plan under such section 401(k),  
 3 if—

4 (1) no employee of an organization described in  
 5 section 403(b)(1)(A)(i) of such Code is eligible to par-  
 6 ticipate in such section 401(k) plan or section 401(m)  
 7 plan, and

8 (2) 95 percent of the employees who are not em-  
 9 ployees of an organization described in section  
 10 403(b)(1)(A)(i) of such Code are eligible to partici-  
 11 pate in such section 401(k) plan or section 401(m)  
 12 plan.

13 (b) *EFFECTIVE DATE.*—The modification required by  
 14 subsection (a) shall apply as of the same date set forth in  
 15 section 1426(b) of the Small Business Job Protection Act  
 16 of 1996.

17 **SEC. 1259. CLARIFICATION OF TREATMENT OF EMPLOYER-**  
 18 **PROVIDED RETIREMENT ADVICE.**

19 (a) *IN GENERAL.*—Subsection (a) of section 132 (relat-  
 20 ing to exclusion from gross income) is amended by striking  
 21 “or” at the end of paragraph (5), by striking the period  
 22 at the end of paragraph (6) and inserting “, or”, and by  
 23 adding at the end the following new paragraph:

24 “(7) qualified retirement planning services.”.

1       (b) *QUALIFIED RETIREMENT PLANNING SERVICES DE-*  
 2 *FINED.*—Section 132 is amended by redesignating sub-  
 3 section (m) as subsection (n) and by inserting after sub-  
 4 section (l) the following:

5       “(m) *QUALIFIED RETIREMENT PLANNING SERV-*  
 6 *ICES.*—

7               “(1) *IN GENERAL.*—For purposes of this section,  
 8 the term ‘qualified retirement planning services’  
 9 means any retirement planning service provided to  
 10 an employee and his spouse by an employer main-  
 11 taining a retirement plan.

12              “(2) *NONDISCRIMINATION RULE.*—Subsection  
 13 (a)(7) shall apply in the case of highly compensated  
 14 employees only if such services are available on sub-  
 15 stantially the same terms to each member of the group  
 16 of employees normally provided education and infor-  
 17 mation regarding the employer’s pension plan.”.

18       (c) *EFFECTIVE DATE.*—The amendments made by this  
 19 section shall apply to years beginning after December 31,  
 20 2000.

21 **SEC. 1260. PROVISIONS RELATING TO PLAN AMENDMENTS.**

22       (a) *IN GENERAL.*—If this section applies to any plan  
 23 or contract amendment—

24              (1) such plan or contract shall be treated as  
 25 being operated in accordance with the terms of the

1     *plan during the period described in subsection*  
 2     *(b)(2)(A), and*

3             *(2) such plan shall not fail to meet the require-*  
 4     *ments of section 411(d)(6) of the Internal Revenue*  
 5     *Code of 1986 by reason of such amendment.*

6     ***(b) AMENDMENTS TO WHICH SECTION APPLIES.—***

7             ***(1) IN GENERAL.—****This section shall apply to*  
 8     *any amendment to any plan or annuity contract*  
 9     *which is made—*

10            *(A) pursuant to any amendment made by*  
 11     *this title, or pursuant to any regulation issued*  
 12     *under this title, and*

13            *(B) on or before the last day of the first*  
 14     *plan year beginning on or after January 1,*  
 15     *2003.*

16     *In the case of a government plan (as defined in sec-*  
 17     *tion 414(d) of the Internal Revenue Code of 1986, this*  
 18     *paragraph shall be applied by substituting “2005” for*  
 19     *“2003”.*

20            ***(2) CONDITIONS.—****This section shall not apply to*  
 21     *any amendment unless—*

22            *(A) during the period—*

23                 *(i) beginning on the date the legislative*  
 24     *or regulatory amendment described in para-*  
 25     *graph (1)(A) takes effect (or in the case of*

1           a plan or contract amendment not required  
2           by such legislative or regulatory amend-  
3           ment, the effective date specified by the  
4           plan), and

5                   (ii) ending on the date described in  
6           paragraph (1)(B) (or, if earlier, the date the  
7           plan or contract amendment is adopted),  
8           the plan or contract is operated as if such plan  
9           or contract amendment were in effect, and

10                   (B) such plan or contract amendment ap-  
11           plies retroactively for such period.

12 **SEC. 1261. MODEL PLANS FOR SMALL BUSINESSES.**

13           (a) *IN GENERAL.*—Not later than December 31, 2000,  
14 the Secretary of the Treasury is directed to issue at least  
15 one model defined contribution plan and at least one model  
16 defined benefit plan that fit the needs of small businesses  
17 and that shall be treated as meeting the requirements of  
18 section 401(a) of the Internal Revenue Code of 1986 with  
19 respect to the form of the plan. To the extent that the re-  
20 quirements of section 401(a) of such Code are modified after  
21 the issuance of such plans, the Secretary of the Treasury  
22 shall, in a timely manner, issue model amendments that,  
23 if adopted in a timely manner by an employer that has  
24 a model plan in effect, shall cause such model plan to be

1 *treated as meeting the requirements of section 401(a) of*  
 2 *such Code, as modified, with respect to the form of the plan.*

3 *(b) PROTOTYPE PLAN ALTERNATIVE.—The Secretary*  
 4 *of the Treasury may satisfy the requirements of subsection*  
 5 *(a) through the enhancement and simplification of the Sec-*  
 6 *retary's programs for prototype plans in such a manner*  
 7 *as to achieve the purposes of subsection (a).*

8 **SEC. 1262. SIMPLIFIED ANNUAL FILING REQUIREMENT FOR**  
 9 **PLANS WITH FEWER THAN 25 EMPLOYEES.**

10 *(a) IN GENERAL.—In the case of a retirement plan*  
 11 *which covers less than 25 employees on the 1st day of the*  
 12 *plan year and meets the requirements described in sub-*  
 13 *section (b), the Secretary of the Treasury shall provide for*  
 14 *the filing of a simplified annual return that is substantially*  
 15 *similar to the annual return required to be filed by a one-*  
 16 *participant retirement plan.*

17 *(b) REQUIREMENTS.—A plan meets the requirements*  
 18 *of this subsection if it—*

19 *(1) meets the minimum coverage requirements of*  
 20 *section 410(b) of the Internal Revenue Code of 1986*  
 21 *without being combined with any other plan of the*  
 22 *business that covers the employees of the business,*

23 *(2) does not cover a business that is a member*  
 24 *of an affiliated service group, a controlled group of*

1       corporations, or a group of businesses under common  
2       control, and

3               (3) does not cover a business that leases employ-  
4       ees.

5   **SEC. 1263. IMPROVEMENT OF EMPLOYEE PLANS COMPLI-**  
6               **ANCE RESOLUTION SYSTEM.**

7       *The Secretary of the Treasury shall continue to update*  
8       *and improve the Employee Plans Compliance Resolution*  
9       *System (or any successor program) giving special attention*  
10      *to—*

11               (1) increasing the awareness and knowledge of  
12       small employers concerning the availability and use  
13       of the program,

14               (2) taking into account special concerns and cir-  
15       cumstances that small employers face with respect to  
16       compliance and correction of compliance failures,

17               (3) extending the duration of the self-correction  
18       period under the Administrative Policy Regarding  
19       Self-Correction for significant compliance failures,

20               (4) expanding the availability to correct insig-  
21       nificant compliance failures under the Administrative  
22       Policy Regarding Self-Correction during audit, and

23               (5) assuring that any tax, penalty, or sanction  
24       that is imposed by reason of a compliance failure is

1       *not excessive and bears a reasonable relationship to*  
 2       *the nature, extent, and severity of the failure.*

3       ***TITLE XIII—MISCELLANEOUS***  
 4               ***PROVISIONS***

5       ***Subtitle A—Provisions Primarily***  
 6               ***Affecting Individuals***

7       ***SEC. 1301. EXCLUSION FOR FOSTER CARE PAYMENTS TO***  
 8               ***APPLY TO PAYMENTS BY QUALIFIED PLACE-***  
 9               ***MENT AGENCIES.***

10       *(a) IN GENERAL.—The matter preceding subpara-*  
 11       *graph (B) of section 131(b)(1) (defining qualified foster care*  
 12       *payment) is amended to read as follows:*

13               *“(1) IN GENERAL.—The term ‘qualified foster*  
 14       *care payment’ means any payment made pursuant to*  
 15       *a foster care program of a State or political subdivi-*  
 16       *sion thereof—*

17                       *“(A) which is paid by—*

18                               *“(i) a State or political subdivision*  
 19                               *thereof, or*

20                               *“(ii) a qualified foster care placement*  
 21                               *agency, and”.*

22       *(b) QUALIFIED FOSTER INDIVIDUALS TO INCLUDE IN-*  
 23       *DIVIDUALS PLACED BY QUALIFIED PLACEMENT AGEN-*  
 24       *CIES.—Subparagraph (B) of section 131(b)(2) (defining*  
 25       *qualified foster individual) is amended to read as follows:*

1                   “(B) a qualified foster care placement agen-  
2                   cy.”

3           (c) *QUALIFIED FOSTER CARE PLACEMENT AGENCY*  
4 *DEFINED.*—Subsection (b) of section 131 is amended by re-  
5 designating paragraph (3) as paragraph (4) and by insert-  
6 ing after paragraph (2) the following new paragraph:

7                   “(3) *QUALIFIED FOSTER CARE PLACEMENT*  
8 *AGENCY.*—The term ‘qualified foster care placement  
9 agency’ means any placement agency which is li-  
10 censed or certified by—

11                   “(A) a State or political subdivision thereof,  
12                   or

13                   “(B) an entity designated by a State or po-  
14 litical subdivision thereof,  
15 for the foster care program of such State or political  
16 subdivision to make foster care payments to providers  
17 of foster care.”

18           (d) *EFFECTIVE DATE.*—The amendments made by this  
19 section shall apply to taxable years beginning after Decem-  
20 ber 31, 1999.



1 **SEC. 1302. MILEAGE REIMBURSEMENTS TO CHARITABLE**  
2 **VOLUNTEERS EXCLUDED FROM GROSS IN-**  
3 **COME.**

4 (A) *IN GENERAL.*—Part III of subchapter B of chapter  
5 1 is amended by inserting after section 138 the following  
6 new section:

7 **“SEC. 138A. MILEAGE REIMBURSEMENTS TO CHARITABLE**  
8 **VOLUNTEERS.**

9 “(a) *IN GENERAL.*—Gross income of an individual  
10 does not include amounts received, from an organization  
11 described in section 170(c), as reimbursement of operating  
12 expenses with respect to use of a passenger automobile for  
13 the benefit of such organization. The preceding sentence  
14 shall apply only to the extent that such reimbursement  
15 would be deductible under section 274(d) (determined by  
16 applying the standard business mileage rate established  
17 pursuant to section 274(d)) if the organization were not so  
18 described and such individual were an employee of such or-  
19 ganization.

20 “(b) *NO DOUBLE BENEFIT.*—Subsection (a) shall not  
21 apply with respect to any expenses if the individual claims  
22 a deduction or credit for such expenses under any other pro-  
23 vision of this title.

24 “(c) *EXEMPTION FROM REPORTING REQUIRE-*  
25 *MENTS.*—Section 6041 shall not apply with respect to reim-  
26 bursements excluded from income under subsection (a).”

1       (b) *CLERICAL AMENDMENT.*—*The table of sections for*  
 2 *part III of subchapter B of chapter 1 is amended by insert-*  
 3 *ing after the item relating to section 138 the following new*  
 4 *items:*

*“Sec. 138A. Reimbursement for use of passenger automobile for  
 charity.”*

5       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 6 *section shall apply to taxable years beginning after Decem-*  
 7 *ber 31, 1999.*

8       **SEC. 1303. W-2 TO INCLUDE EMPLOYER SOCIAL SECURITY**  
 9                               **TAXES.**

10       (a) *IN GENERAL.*—*Subsection (a) of section 6051 (re-*  
 11 *lating to receipts for employees) is amended by striking*  
 12 *“and” at the end of paragraph (10), by striking the period*  
 13 *at the end of paragraph (11) and inserting a comma, and*  
 14 *by inserting after paragraph (11) the following new para-*  
 15 *graphs:*

16               *“(12) the amount of tax imposed by section*  
 17       *3111(a), and*

18               *“(13) the amount of tax imposed by section*  
 19       *3111(b).”*

20       (b) *EFFECTIVE DATE.*—*The amendment made by this*  
 21 *section shall apply with respect to remuneration paid after*  
 22 *December 31, 1999.*

1 **SEC. 1304. CONSISTENT TREATMENT OF SURVIVOR BENE-**  
 2 **FITS FOR PUBLIC SAFETY OFFICERS KILLED**  
 3 **IN THE LINE OF DUTY.**

4 *Subsection (b) of section 1528 of the Taxpayer Relief*  
 5 *Act of 1997 (Public Law 105–34) is amended by striking*  
 6 *the period and inserting ‘, and to amounts received in tax-*  
 7 *able years beginning after December 31, 1999, with respect*  
 8 *to individuals dying on or before December 31, 1996.’”*

9 ***Subtitle B—Provisions Primarily***  
 10 ***Affecting Businesses***

11 **SEC. 1311. DISTRIBUTIONS FROM PUBLICLY TRADED PART-**  
 12 **NERSHIPS TREATED AS QUALIFYING INCOME**  
 13 **OF REGULATED INVESTMENT COMPANIES.**

14 *(a) IN GENERAL.—Paragraph (2) of section 851(b)*  
 15 *(defining regulated investment company) is amended by in-*  
 16 *serting “income derived from an interest in a publicly trad-*  
 17 *ed partnership (as defined in section 7704(b)),” after “divi-*  
 18 *dends, interest,”.*

19 *(b) SOURCE FLOW-THROUGH RULE NOT TO APPLY.—*  
 20 *The last sentence of section 851(b) is amended by inserting*  
 21 *“(other than a publicly traded partnership (as defined in*  
 22 *section 7704(b)))” after “derived from a partnership”.*

23 *(c) EFFECTIVE DATE.—The amendments made by this*  
 24 *section shall apply to taxable years beginning after Decem-*  
 25 *ber 31, 2000.*

1 **SEC. 1312. SPECIAL PASSIVE ACTIVITY RULE FOR PUBLICLY**  
 2 **TRADED PARTNERSHIPS TO APPLY TO REGU-**  
 3 **LATED INVESTMENT COMPANIES.**

4 (a) *IN GENERAL.*—Subsection (k) of section 469 (relat-  
 5 ing to separate application of section in case of publicly  
 6 traded partnerships) is amended by adding at the end the  
 7 following new paragraph:

8 “(4) *APPLICATION TO REGULATED INVESTMENT*  
 9 *COMPANIES.*—For purposes of this section, a regulated  
 10 investment company (as defined in section 851) hold-  
 11 ing an interest in a publicly traded partnership shall  
 12 be treated as a taxpayer described in subsection (a)(2)  
 13 with respect to items attributable to such interest.”.

14 (b) *EFFECTIVE DATE.*—The amendment made by this  
 15 section shall apply to taxable years beginning after Decem-  
 16 ber 31, 2000.

17 **SEC. 1313. LARGE ELECTRIC TRUCKS, VANS, AND BUSES EL-**  
 18 **IGIBLE FOR DEDUCTION FOR CLEAN-FUEL VE-**  
 19 **HICLES IN LIEU OF CREDIT.**

20 (a) *IN GENERAL.*—Paragraph (1) of section 30(c) (re-  
 21 lating to credit for qualified electric vehicles) is amended  
 22 by adding at the end the following new flush sentence:

23 “Such term shall not include any vehicle described in  
 24 subclause (I) or (II) of section 179A(b)(1)(A)(iii).”

1       (b) *EFFECTIVE DATE.*—*The amendment made by this*  
 2 *section shall apply to property placed in service after De-*  
 3 *cember 31, 1999.*

4       **SEC. 1314. MODIFICATIONS TO SPECIAL RULES FOR NU-**  
 5               **CLEAR DECOMMISSIONING COSTS.**

6       (a) *REPEAL OF LIMITATION ON DEPOSITS INTO FUND*  
 7 *BASED ON COST OF SERVICE.*—*Subsection (b) of section*  
 8 *468A is amended to read as follows:*

9           “(b) *LIMITATION ON AMOUNTS PAID INTO FUND.*—*The*  
 10 *amount which a taxpayer may pay into the Fund for any*  
 11 *taxable year shall not exceed the ruling amount applicable*  
 12 *to such taxable year.”*

13       (b) *CLARIFICATION OF TREATMENT OF FUND TRANS-*  
 14 *FERS.*—*Subsection (e) of section 468A is amended by add-*  
 15 *ing at the end the following new paragraph:*

16           “(8) *TREATMENT OF FUND TRANSFERS.*—*If, in*  
 17 *connection with the transfer of the taxpayer’s interest*  
 18 *in a nuclear powerplant, the taxpayer transfers the*  
 19 *Fund with respect to such powerplant to the trans-*  
 20 *feree of such interest and the transferee elects to con-*  
 21 *tinue the application of this section to such Fund—*

22           “(A) *the transfer of such Fund shall not*  
 23 *cause such Fund to be disqualified from the ap-*  
 24 *plication of this section, and*

1                   “(B) no amount shall be treated as distrib-  
 2                   uted from such Fund, or be includible in gross  
 3                   income, by reason of such transfer.”

4           (c) *TRANSFERS OF BALANCES IN NONQUALIFIED*  
 5 *FUNDS.*—Section 468A is amended by redesignating sub-  
 6 sections (f) and (g) as subsections (g) and (h), respectively,  
 7 and by inserting after subsection (e) the following new sub-  
 8 section:

9           “(f) *TRANSFERS OF BALANCES IN NONQUALIFIED*  
 10 *FUNDS INTO QUALIFIED FUNDS.*—

11                   “(1) *IN GENERAL.*—Notwithstanding subsection  
 12                   (b), any taxpayer maintaining a Fund to which this  
 13                   section applies with respect to a nuclear powerplant  
 14                   may transfer into such Fund amounts held in any  
 15                   nonqualified fund of such taxpayer with respect to  
 16                   such powerplant.

17                   “(2) *MAXIMUM AMOUNT PERMITTED TO BE*  
 18                   *TRANSFERRED.*—The amount permitted to be trans-  
 19                   ferred under paragraph (1) shall not exceed the bal-  
 20                   ance in the nonqualified fund as of December 31,  
 21                   1998.

22                   “(3) *DEDUCTION FOR AMOUNTS TRANS-*  
 23                   *FERRED.*—

24                   “(A) *IN GENERAL.*—The deduction allowed  
 25                   by subsection (a) for any transfer permitted by

1        *this subsection shall be allowed ratably over the*  
2        *remaining estimated useful life (within the*  
3        *meaning of subsection (d)(2)(A)) of the nuclear*  
4        *powerplant, beginning with the later of the tax-*  
5        *able year during which the transfer is made or*  
6        *the taxpayer's first taxable year beginning after*  
7        *December 31, 2001.*

8                *“(B) DENIAL OF DEDUCTION FOR PRE-*  
9        *VIOUSLY DEDUCTED AMOUNTS.—No deduction*  
10       *shall be allowed for any transfer under this sub-*  
11       *section of an amount for which a deduction was*  
12       *allowed when such amount was paid into the*  
13       *nonqualified fund. For purposes of the preceding*  
14       *sentence, a ratable portion of each transfer shall*  
15       *be treated as being from previously deducted*  
16       *amounts to the extent thereof.*

17                *“(C) TRANSFERS OF QUALIFIED FUNDS.—*  
18       *If—*

19                        *“(i) any transfer permitted by this*  
20                        *subsection is made to any Fund to which*  
21                        *this section applies, and*

22                        *“(ii) such Fund is transferred there-*  
23                        *after,*

24        *any deduction under this subsection for taxable*  
25        *years ending after the date that such Fund is*

1           *transferred shall be allowed to the transferee and*  
2           *not to the transferor. The preceding sentence*  
3           *shall not apply if the transferor is an organiza-*  
4           *tion exempt from tax imposed by this chapter.*

5           “(4) *NEW RULING AMOUNT REQUIRED.*—Para-  
6           *graph (1) shall not apply to any transfer unless the*  
7           *taxpayer requests from the Secretary a new schedule*  
8           *of ruling amounts in connection with such transfer.*

9           “(5) *NONQUALIFIED FUND.*—For purposes of this  
10          *subsection, the term ‘nonqualified fund’ means, with*  
11          *respect to any nuclear powerplant, any fund in which*  
12          *amounts are irrevocably set aside pursuant to the re-*  
13          *quirements of any State or Federal agency exclusively*  
14          *for the purpose of funding the decommissioning of*  
15          *such powerplant.*

16          “(6) *NO BASIS IN QUALIFIED FUNDS.*—Notwith-  
17          *standing any other provision of law, the basis of any*  
18          *Fund to which this section applies shall not be in-*  
19          *creased by reason of any transfer permitted by this*  
20          *subsection.”*

21          “(d) *EFFECTIVE DATE.*—The amendments made by this  
22          *section shall apply to taxable years beginning after Decem-*  
23          *ber 31, 1999.*



1 **SEC. 1315. CONSOLIDATION OF LIFE INSURANCE COMPA-**  
2 **NIES WITH OTHER CORPORATIONS.**

3 (a) *IN GENERAL.*—Section 1504(b) (defining includ-  
4 ible corporation) is amended by striking paragraph (2).

5 (b) *CONFORMING AMENDMENTS.*—

6 (1) Subsection (c) of section 1503 is amended by  
7 striking paragraph (2) (relating to losses of recent  
8 nonlife affiliates).

9 (2) Section 1504 is amended by striking sub-  
10 section (c) and by redesignating subsections (d), (e),  
11 and (f) as subsections (c), (d), and (e), respectively.

12 (3) Section 1503(c)(1) (relating to special rule  
13 for application of certain losses against income of in-  
14 surance companies taxed under section 801) is  
15 amended by striking “an election under section  
16 1504(c)(2) is in effect for the taxable year and”.

17 (c) *EFFECTIVE DATE.*—The amendments made by this  
18 section shall apply to taxable years beginning after Decem-  
19 ber 31, 2004.

20 (d) *NO CARRYBACK BEFORE JANUARY 1, 2005.*—To  
21 the extent that a consolidated net operating loss is allowed  
22 or increased by reason of the amendments made by this sec-  
23 tion, such loss may not be carried back to a taxable year  
24 beginning before January 1, 2005.

1       (e) *NONTERMINATION OF GROUP.*—No affiliated group  
 2   shall terminate solely as a result of the amendments made  
 3   by this section.

4       (f) *WAIVER OF 5-YEAR WAITING PERIOD.*—Under reg-  
 5   ulations prescribed by the Secretary of the Treasury or his  
 6   delegate, an automatic waiver from the 5-year waiting pe-  
 7   riod for reconsolidation provided in section 1504(a)(3) of  
 8   such Code shall be granted to any corporation which was  
 9   previously an includible corporation but was subsequently  
 10   deemed a nonincludible corporation as a result of becoming  
 11   a subsidiary of a corporation which was not an includible  
 12   corporation solely by operation of section 1504(c)(2) of such  
 13   Code (as in effect on the day before the date of enactment  
 14   of this Act).

## 15    ***Subtitle C—Provisions Relating to*** 16                   ***Excise Taxes***

### 17   ***SEC. 1321. CONSOLIDATION OF HAZARDOUS SUBSTANCE*** 18                   ***SUPERFUND AND LEAKING UNDERGROUND*** 19                   ***STORAGE TANK TRUST FUND.***

20       (a) *IN GENERAL.*—Subchapter A of chapter 98 (relat-  
 21   ing to trust fund code) is amended by striking sections 9507  
 22   and 9508 and inserting the following new section:

#### 23    ***“SEC. 9507. ENVIRONMENTAL REMEDIATION TRUST FUND.***

24       “(a) *CREATION OF TRUST FUND.*—There is established  
 25   in the Treasury of the United States a trust fund to be

1 *known as the ‘Environmental Remediation Trust Fund’*  
 2 *consisting of such amounts as may be—*

3           “(1) *appropriated to the Environmental Remedi-*  
 4 *ation Trust Fund as provided in this section,*

5           “(2) *appropriated to the Environmental Remedi-*  
 6 *ation Trust Fund pursuant to section 517(b) of the*  
 7 *Superfund Revenue Act of 1986, or*

8           “(3) *credited to the Environmental Remediation*  
 9 *Trust Fund as provided in section 9602(b).*

10       “(b) *TRANSFERS TO ENVIRONMENTAL REMEDIATION*  
 11 *TRUST FUND.—*

12           “(1) *IN GENERAL.—There are hereby appro-*  
 13 *priated to the Environmental Remediation Trust*  
 14 *Fund amounts equivalent to—*

15           “(A) *the taxes received in the Treasury*  
 16 *under—*

17                   “(i) *section 59A, 4611, 4661, or 4671*  
 18 *(relating to environmental taxes),*

19                   “(ii) *section 4041(d) (relating to addi-*  
 20 *tional taxes on motor fuels),*

21                   “(iii) *section 4081 (relating to tax on*  
 22 *gasoline, diesel fuel, and kerosene) to the ex-*  
 23 *tent attributable to the Environmental Re-*  
 24 *mediation Trust Fund financing rate under*  
 25 *such section,*

1           “(iv) section 4091 (relating to tax on  
2           aviation fuel) to the extent attributable to  
3           the Environmental Remediation Trust  
4           Fund financing rate under such section,  
5           and

6           “(v) section 4042 (relating to tax on  
7           fuel used in commercial transportation on  
8           inland waterways) to the extent attributable  
9           to the Environmental Remediation Trust  
10          Fund financing rate under such section,

11          “(B) amounts recovered on behalf of the En-  
12          vironmental Remediation Trust Fund under the  
13          Comprehensive Environmental Response, Com-  
14          pensation, and Liability Act of 1980 (hereinafter  
15          in this section referred to as ‘CERCLA’),

16          “(C) all moneys recovered or collected under  
17          section 311(b)(6)(B) of the Clean Water Act,

18          “(D) penalties assessed under title I of  
19          CERCLA,

20          “(E) punitive damages under section  
21          107(c)(3) of CERCLA, and

22          “(F) amounts received in the Treasury and  
23          collected under section 9003(h)(6) of the Solid  
24          Waste Disposal Act.

25          “(2) LIMITATION ON TRANSFERS.—

1           “(A) *IN GENERAL.*—*Except as provided in*  
2           *subparagraph (B), no amount may be appro-*  
3           *priated or credited to the Environmental Reme-*  
4           *diation Trust Fund on and after the date of any*  
5           *expenditure from any such Trust Fund which is*  
6           *not permitted by this section. The determination*  
7           *of whether an expenditure is so permitted shall*  
8           *be made without regard to—*

9                   “(i) *any provision of law which is not*  
10                  *contained or referenced in this title or in a*  
11                  *revenue Act, and*

12                  “(ii) *whether such provision of law is*  
13                  *a subsequently enacted provision or directly*  
14                  *or indirectly seeks to waive the application*  
15                  *of this paragraph.*

16           “(B) *EXCEPTION FOR PRIOR OBLIGA-*  
17           *TIONS.*—*Subparagraph (A) shall not apply to*  
18           *any expenditure to liquidate any contract en-*  
19           *tered into (or for any amount otherwise obli-*  
20           *gated) in accordance with the provisions of this*  
21           *section.”*

22           “(c) *EXPENDITURES FROM ENVIRONMENTAL REMEDI-*  
23           *ATION TRUST FUND.*—

24                   “(1) *IN GENERAL.*—*Amounts in the Environ-*  
25                  *mental Remediation Trust Fund shall be available, as*

1       *provided in appropriation Acts, only for purposes of*  
2       *making expenditures—*

3               “(A) *to carry out the purposes of—*

4                       “(i) *paragraphs (1), (2), (5), and (6)*  
5                       *of section 111(a) of CERCLA as in effect on*  
6                       *July 12, 1999,*

7                       “(ii) *section 111(c) of CERCLA (as so*  
8                       *in effect), other than paragraphs (1) and*  
9                       *(2) thereof, and*

10                      “(iii) *section 111(m) of CERCLA (as*  
11                      *so in effect), or*

12                      “(B) *to carry out section 9003(h) of the*  
13                      *Solid Waste Disposal Act as in effect on July 12,*  
14                      *1999.*

15               “(2) *EXCEPTION FOR CERTAIN TRANSFERS, ETC.,*  
16       *OF HAZARDOUS SUBSTANCES.—No amount in the En-*  
17       *vironmental Remediation Trust Fund or derived from*  
18       *the Environmental Remediation Trust Fund shall be*  
19       *available or used for the transfer or disposal of haz-*  
20       *ardous waste carried out pursuant to a cooperative*  
21       *agreement between the Administrator of the Environ-*  
22       *mental Protection Agency and a State if the following*  
23       *conditions apply—*

1           “(A) *the transfer or disposal, if made on*  
 2           *December 13, 1985, would not comply with a*  
 3           *State or local requirement,*

4           “(B) *the transfer is to a facility for which*  
 5           *a final permit under section 3005(a) of the Solid*  
 6           *Waste Disposal Act was issued after January 1,*  
 7           *1983, and before November 1, 1984, and*

8           “(C) *the transfer is from a facility identi-*  
 9           *fied as the McColl Site in Fullerton, California.*

10          “(3) *TRANSFERS FROM TRUST FUND FOR CER-*  
 11          *TAIN REPAYMENTS AND CREDITS.—*

12           “(A) *IN GENERAL.—The Secretary shall pay*  
 13           *from time to time from the Environmental Re-*  
 14           *mediation Trust Fund into the general fund of*  
 15           *the Treasury amounts equivalent to—*

16           “(i) *amounts paid under—*

17           “(I) *section 6420 (relating to*  
 18           *amounts paid in respect of gasoline*  
 19           *used on farms),*

20           “(II) *section 6421 (relating to*  
 21           *amounts paid in respect of gasoline*  
 22           *used for certain nonhighway purposes*  
 23           *or by local transit systems), and*

1                   “(III) section 6427 (relating to  
2                   fuels not used for taxable purposes),  
3                   and

4                   “(ii) credits allowed under section 34,  
5                   with respect to the taxes imposed by section  
6                   4041(d) or by sections 4081 and 4091 (to the ex-  
7                   tent attributable to the Leaking Underground  
8                   Storage Tank Trust Fund financing rate or the  
9                   Environmental Remediation Trust Fund financ-  
10                  ing rate under such sections).

11                  “(B) TRANSFERS BASED ON ESTIMATES.—  
12                  Transfers under subparagraph (A) shall be made  
13                  on the basis of estimates by the Secretary, and  
14                  proper adjustments shall be made in amounts  
15                  subsequently transferred to the extent prior esti-  
16                  mates were in excess of or less than the amounts  
17                  required to be transferred.

18                  “(d) LIABILITY OF UNITED STATES LIMITED TO  
19                  AMOUNT IN TRUST FUND.—

20                  “(1) GENERAL RULE.—Any claim filed against  
21                  the Environmental Remediation Trust Fund may be  
22                  paid only out of the Environmental Remediation  
23                  Trust Fund.

24                  “(2) COORDINATION WITH OTHER PROVISIONS.—  
25                  Nothing in CERCLA or the Superfund Amendments



1        *and Reauthorization Act of 1986 (or in any amend-*  
 2        *ment made by either of such Acts) shall authorize the*  
 3        *payment by the United States Government of any*  
 4        *amount with respect to any such claim out of any*  
 5        *source other than the Environmental Remediation*  
 6        *Trust Fund.*

7                *“(3) ORDER IN WHICH UNPAID CLAIMS ARE TO*  
 8        *BE PAID.—If at any time the Environmental Remedi-*  
 9        *ation Trust Fund has insufficient funds to pay all of*  
 10        *the claims payable out of the Environmental Remedi-*  
 11        *ation Trust Fund at such time, such claims shall, to*  
 12        *the extent permitted under paragraph (1), be paid in*  
 13        *full in the order in which they were finally deter-*  
 14        *mined.”*

15        *(b) CONFORMING AMENDMENTS.—*

16                *(1) Subsections (c) and (d) of section 4611 are*  
 17        *each amended by striking “Hazardous Substance*  
 18        *Superfund” each place it appears and inserting “En-*  
 19        *vironmental Remediation Trust Fund”.*

20                *(2) Subsection (c) of section 4661 is amended by*  
 21        *striking “Hazardous Substance Superfund” and in-*  
 22        *serting “Environmental Remediation Trust Fund”.*

23                *(3) Sections 4041(d), 4042(b), 4081(a)(2)(B),*  
 24        *4081(d)(3), 4091(b), 4092(b), 6421(f), and 6427(l) are*  
 25        *each amended by striking “Leaking Underground*

1        *Storage Tank*” each place it appears (other than the  
 2        headings) and inserting “*Environmental Remedi-*  
 3        *ation*”.

4            (4) *The heading for subsection (d) of section*  
 5        *4041 is amended by striking “LEAKING UNDER-*  
 6        *GROUND STORAGE TANK” and inserting “ENVIRON-*  
 7        *MENTAL REMEDIATION”.*

8            (5) *The headings for subsections (a)(2)(B) and*  
 9        *(d)(3) of section 4081 and section 4091(b)(2) are each*  
 10       *amended by striking “LEAKING UNDERGROUND STOR-*  
 11       *AGE TANK” and inserting “ENVIRONMENTAL REMEDI-*  
 12       *ATION”.*

13        (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 14       *section shall take effect on October 1, 1999.*

15        (d) *ENVIRONMENTAL REMEDIATION TRUST FUND*  
 16       *TREATED AS CONTINUATION OF OLD TRUST FUNDS.*—*The*  
 17       *Environmental Remediation Trust Fund established by the*  
 18       *amendments made by this section shall be treated for all*  
 19       *purposes of law as a continuation of both the Hazardous*  
 20       *Substance Superfund and the Leaking Underground Stor-*  
 21       *age Tank Trust Fund. Any reference in any law to the Haz-*  
 22       *ardous Substance Superfund or the Leaking Underground*  
 23       *Storage Tank Trust Fund shall be deemed to include (wher-*  
 24       *ever appropriate) a reference to the Environmental Remedi-*  
 25       *ation Trust Fund established by such amendments.*

1 **SEC. 1322. REPEAL OF CERTAIN MOTOR FUEL EXCISE TAXES**  
2 **ON FUEL USED BY RAILROADS AND ON IN-**  
3 **LAND WATERWAY TRANSPORTATION.**

4 (a) *REPEAL OF LEAKING UNDERGROUND STORAGE*  
5 *TANK TRUST FUND TAXES ON FUEL USED IN TRAINS.—*

6 (1) *IN GENERAL.—Paragraph (1) of section*  
7 *4041(d) is amended by adding at the end the fol-*  
8 *lowing new sentence: “The preceding sentence shall*  
9 *not apply to any sale for use, or use, of fuel in a die-*  
10 *sel-powered train.”*

11 (2) *CONFORMING AMENDMENTS.—*

12 (A) *Paragraph (3) of section 6421(f) is*  
13 *amended by striking “with respect to—” and all*  
14 *that follows through “so much of” and inserting*  
15 *“with respect to so much of”.*

16 (B) *Paragraph (3) of section 6427(l) is*  
17 *amended by striking “with respect to—” and all*  
18 *that follows through “so much of” and inserting*  
19 *“with respect to so much of”.*

20 (b) *REPEAL OF 4.3-CENT MOTOR FUEL EXCISE TAXES*  
21 *ON RAILROADS AND INLAND WATERWAY TRANSPORTATION*  
22 *WHICH REMAIN IN GENERAL FUND.—*

23 (1) *TAXES ON TRAINS.—*

24 (A) *IN GENERAL.—Subparagraph (A) of*  
25 *section 4041(a)(1) is amended by striking “or a*

1       *diesel-powered train” each place it appears and*  
2       *by striking “or train”.*

3               *(B) CONFORMING AMENDMENTS.—*

4               *(i) Subparagraph (C) of section*  
5       *4041(a)(1) is amended by striking clause*  
6       *(ii) and by redesignating clause (iii) as*  
7       *clause (ii).*

8               *(ii) Subparagraph (C) of section*  
9       *4041(b)(1) is amended by striking all that*  
10       *follows “section 6421(e)(2)” and inserting a*  
11       *period.*

12               *(iii) Paragraph (3) of section 4083(a)*  
13       *is amended by striking “or a diesel-powered*  
14       *train”.*

15               *(iv) Section 6421(f) is amended by*  
16       *striking paragraph (3).*

17               *(v) Section 6427(l) is amended by*  
18       *striking paragraph (3).*

19               *(2) FUEL USED ON INLAND WATERWAYS.—*

20               *(A) IN GENERAL.—Paragraph (1) of section*  
21       *4042(b) is amended by adding “and” at the end*  
22       *of subparagraph (A), by striking “, and” at the*  
23       *end of subparagraph (B) and inserting a period,*  
24       *and by striking subparagraph (C).*

1                   (B) *CONFORMING AMENDMENT.*—Paragraph  
 2                   (2) of section 4042(b) is amended by striking  
 3                   subparagraph (C).

4                   (c) *EFFECTIVE DATE.*—The amendments made by this  
 5 subsection shall take effect on October 1, 1999 (October 1,  
 6 2003, in the case of the amendments made by subsection  
 7 (b)), but shall not take effect if section 1321 does not take  
 8 effect.

9   **SEC. 1323. REPEAL OF EXCISE TAX ON FISHING TACKLE**  
 10                   **BOXES.**

11                  (a) *IN GENERAL.*—Paragraph (6) of section 4162(a)  
 12 (defining sport fishing equipment) is amended by striking  
 13 subparagraph (C) and by redesignating subparagraphs (D)  
 14 through (J) as subparagraphs (C) through (I), respectively.

15                  (b) *EFFECTIVE DATE.*—The amendment made by this  
 16 section shall apply to articles sold by the manufacturer,  
 17 producer, or importer more than 30 days after the date of  
 18 the enactment of this Act.

19   **SEC. 1324. CLARIFICATION OF EXCISE TAX IMPOSED ON**  
 20                   **ARROW COMPONENTS.**

21                  (a) *IN GENERAL.*—Paragraph (2) of section 4161(b)  
 22 (relating to bows and arrows, etc.) is amended to read as  
 23 follows:

24                   “(2) *ARROWS.*—

1           “(A) *IN GENERAL.*—*There is hereby im-*  
2           *posed on the sale by the manufacturer, producer,*  
3           *or importer of any shaft, point, article used to*  
4           *attach a point to a shaft,nock, or vane of a type*  
5           *used in the manufacture of any arrow which*  
6           *after its assembly—*

7                     “(i) *measures 18 inches overall or more*  
8                     *in length, or*

9                     “(ii) *measures less than 18 inches over-*  
10            *all in length but is suitable for use with a*  
11            *bow described in paragraph (1)(A),*  
12            *a tax equal to 12.4 percent of the price for which*  
13            *so sold.*

14           “(B) *REDUCED RATE ON CERTAIN HUNTING*  
15            *POINTS.*—*Subparagraph (A) shall be applied by*  
16            *substituting ‘11 percent’ for ‘12.4 percent’ in the*  
17            *case of a point which is designed primarily for*  
18            *use in hunting fish or large animals.”*

19           (b) *EFFECTIVE DATE.*—*The amendment made by this*  
20            *section shall apply to articles sold by the manufacturer,*  
21            *producer, or importer after the close of the first calendar*  
22            *month ending more than 30 days after the date of the enact-*  
23            *ment of this Act.*

1     ***Subtitle D—Improvements in Low-***  
2             ***Income Housing Credit***

3     ***SEC. 1331. INCREASE IN STATE CEILING ON LOW-INCOME***  
4             ***HOUSING CREDIT.***

5             (a) *INCREASE IN STATE CEILING.*—Clause (i) of sec-  
6     tion 42(h)(3)(C) (relating to State housing credit ceiling)  
7     is amended by striking “\$1.25” and inserting “the applica-  
8     ble amount under subparagraph (H)”.

9             (b) *APPLICABLE AMOUNT; ADJUSTMENT OF STATE*  
10     *CEILING FOR INCREASES IN COST-OF-LIVING.*—Paragraph  
11     (3) of section 42(h) (relating to housing credit dollar  
12     amount for agencies) is amended by adding at the end the  
13     following new subparagraphs:

14                 “(H) *INITIAL AMOUNT OF STATE CEIL-*  
15                 *ING.*—For purposes of subparagraph (C)(i), the  
16                 applicable amount shall be determined under the  
17                 following table:

<b><i>“For calendar year</i></b>	<b><i>The applicable amount is</i></b>
2000 .....	\$1.35
2001 .....	1.45
2002 .....	1.55
2003 .....	1.65
2004 and thereafter .....	1.75.

18                 “(I) *COST-OF-LIVING ADJUSTMENT.*—

19                 “(i) *IN GENERAL.*—In the case of a  
20                 calendar year after 2004 the \$1.75 amount  
21                 in subparagraph (H) shall be increased by  
22                 an amount equal to—

1                   “(I) such dollar amount, multi-  
2                   plied by

3                   “(II) the cost-of-living adjustment  
4                   determined under section 1(f)(3) for  
5                   such calendar year by substituting ‘cal-  
6                   endar year 2003’ for ‘calendar year  
7                   1992’ in subparagraph (B) thereof.

8                   “(ii) *ROUNDING*.—Any increase under  
9                   clause (i) which is not a multiple of 5 cents  
10                  shall be rounded to the next lowest multiple  
11                  of 5 cents.”.

12               (c) *EFFECTIVE DATE*.—The amendments made by this  
13               section shall apply to calendar years after 1999.

14       **SEC. 1332. MODIFICATION OF CRITERIA FOR ALLOCATING**  
15               **HOUSING CREDITS AMONG PROJECTS.**

16               (a) *SELECTION CRITERIA*.—Subparagraph (C) of sec-  
17               tion 42(m)(1) (relating to certain selection criteria must  
18               be used) is amended—

19                   (1) by inserting “, including whether the project  
20                   includes the use of existing housing as part of a com-  
21                   munity revitalization plan” before the comma at the  
22                   end of clause (iii), and

23                   (2) by striking clauses (v), (vi), and (vii) and  
24                   inserting the following new clauses:



1                   “(v) tenant populations with special  
 2                   housing needs,  
 3                   “(vi) public housing waiting lists,  
 4                   “(vii) tenant populations of individ-  
 5                   uals with children, and  
 6                   “(viii) projects intended for eventual  
 7                   tenant ownership.”

8           (b) *PREFERENCE FOR COMMUNITY REVITALIZATION*  
 9 *PROJECTS LOCATED IN QUALIFIED CENSUS TRACTS.*—  
 10 *Clause (ii) of section 42(m)(1)(B) is amended by striking*  
 11 *“and” at the end of subclause (I), by adding “and” at the*  
 12 *end of subclause (II), and by inserting after subclause (II)*  
 13 *the following new subclause:*

14                   “(III) projects which are located  
 15                   in qualified census tracts (as defined  
 16                   in subsection (d)(5)(C)) and the devel-  
 17                   opment of which contributes to a con-  
 18                   certed community revitalization  
 19                   plan,”.

20 **SEC. 1333. ADDITIONAL RESPONSIBILITIES OF HOUSING**  
 21 **CREDIT AGENCIES.**

22           (a) *MARKET STUDY; PUBLIC DISCLOSURE OF RATION-*  
 23 *ALE FOR NOT FOLLOWING CREDIT ALLOCATION PRIOR-*  
 24 *ITIES.*—*Subparagraph (A) of section 42(m)(1) (relating to*  
 25 *responsibilities of housing credit agencies) is amended by*

1 striking “and” at the end of clause (i), by striking the pe-  
 2 riod at the end of clause (ii) and inserting a comma, and  
 3 by adding at the end the following new clauses:

4 “(iii) a comprehensive market study of  
 5 the housing needs of low-income individuals  
 6 in the area to be served by the project is  
 7 conducted before the credit allocation is  
 8 made and at the developer’s expense by a  
 9 disinterested party who is approved by such  
 10 agency, and

11 “(iv) a written explanation is avail-  
 12 able to the general public for any allocation  
 13 of a housing credit dollar amount which is  
 14 not made in accordance with established  
 15 priorities and selection criteria of the hous-  
 16 ing credit agency.”.

17 (b) *SITE VISITS*.—Clause (iii) of section 42(m)(1)(B)  
 18 (relating to qualified allocation plan) is amended by insert-  
 19 ing before the period “and in monitoring for noncompliance  
 20 with habitability standards through regular site visits”.

21 **SEC. 1334. MODIFICATIONS TO RULES RELATING TO BASIS**  
 22 **OF BUILDING WHICH IS ELIGIBLE FOR CRED-**  
 23 **IT.**

24 (a) *HOME ASSISTANCE NOT TO DISQUALIFY BUILD-*  
 25 *ING FOR ADDITIONAL CREDIT AVAILABLE TO BUILDINGS IN*

1 *HIGH COST AREAS.*—*Clause (i) of section 42(i)(2)(E) (re-*  
 2 *lating to buildings receiving HOME assistance) is amended*  
 3 *by striking the last sentence.*

4 *(b) ADJUSTED BASIS TO INCLUDE PORTION OF CER-*  
 5 *TAIN BUILDINGS USED BY LOW-INCOME INDIVIDUALS WHO*  
 6 *ARE NOT TENANTS AND BY PROJECT EMPLOYEES.*—*Para-*  
 7 *graph (4) of section 42(d) (relating to special rules relating*  
 8 *to determination of adjusted basis) is amended—*

9 *(1) by striking “subparagraph (B)” in subpara-*  
 10 *graph (A) and inserting “subparagraphs (B) and*  
 11 *(C)”;*

12 *(2) by redesignating subparagraph (C) as sub-*  
 13 *paragraph (D), and*

14 *(3) by inserting after subparagraph (B) the fol-*  
 15 *lowing new subparagraph:*

16 *“(C) INCLUSION OF BASIS OF PROPERTY*  
 17 *USED TO PROVIDE SERVICES FOR CERTAIN NON-*  
 18 *TENANTS.—*

19 *“(i) IN GENERAL.—The adjusted basis*  
 20 *of any building located in a qualified cen-*  
 21 *sus tract (as defined in paragraph (5)(C))*  
 22 *shall be determined by taking into account*  
 23 *the adjusted basis of property (of a char-*  
 24 *acter subject to the allowance for deprecia-*  
 25 *tion and not otherwise taken into account)*

1           *used throughout the taxable year in pro-*  
 2           *viding any community service facility.*

3           “(ii) *LIMITATION.*—*The increase in the*  
 4           *adjusted basis of any building which is*  
 5           *taken into account by reason of clause (i)*  
 6           *shall not exceed 20 percent of the eligible*  
 7           *basis of the qualified low-income housing*  
 8           *project of which it is a part. For purposes*  
 9           *of the preceding sentence, all community*  
 10           *service facilities which are part of the same*  
 11           *qualified low-income housing project shall*  
 12           *be treated as 1 facility.*

13           “(iii) *COMMUNITY SERVICE FACIL-*  
 14           *ITY.*—*For purposes of this subparagraph,*  
 15           *the term ‘community service facility’ means*  
 16           *any facility designed to serve primarily in-*  
 17           *dividuals whose income is 60 percent or less*  
 18           *of area median income (within the meaning*  
 19           *of subsection (g)(1)(B)).’.*

20   **SEC. 1335. OTHER MODIFICATIONS.**

21       (a) *ALLOCATION OF CREDIT LIMIT TO CERTAIN*  
 22   *BUILDINGS.*—

23           (1) *The first sentence of section 42(h)(1)(E)(ii) is*  
 24           *amended by striking “(as of” the first place it ap-*  
 25           *pears and inserting “(as of the later of the date which*

1        *is 6 months after the date that the allocation was*  
 2        *made or”.*

3            *(2) The last sentence of section 42(h)(3)(C) is*  
 4        *amended by striking “project which” and inserting*  
 5        *“project which fails to meet the 10 percent test under*  
 6        *paragraph (1)(E)(ii) on a date after the close of the*  
 7        *calendar year in which the allocation was made or*  
 8        *which”.*

9        *(b) DETERMINATION OF WHETHER BUILDINGS ARE*  
 10       *LOCATED IN HIGH COST AREAS.—The first sentence of sec-*  
 11       *tion 42(d)(5)(C)(ii)(I) is amended—*

12            *(1) by inserting “either” before “in which 50*  
 13        *percent”, and*

14            *(2) by inserting before the period “ or which has*  
 15        *a poverty rate of at least 25 percent”.*

16       **SEC. 1336. CARRYFORWARD RULES.**

17        *(a) IN GENERAL.—Clause (ii) of section 42(h)(3)(D)*  
 18        *(relating to unused housing credit carryovers allocated*  
 19        *among certain states) is amended by striking “the excess”*  
 20        *and all that follows and inserting “the excess (if any) of—*

21                        *“(I) the unused State housing*  
 22                        *credit ceiling for the year preceding*  
 23                        *such year, over*

1                   “(II) the aggregate housing credit  
2                   dollar amount allocated for such  
3                   year.”.

4           (b) *CONFORMING AMENDMENT.*—The second sentence  
5 of section 42(h)(3)(C) (relating to State housing credit ceil-  
6 ing) is amended by striking “clauses (i) and (iii)” and in-  
7 serting “clauses (i) through (iv)”.

8 **SEC. 1337. EFFECTIVE DATE.**

9           *Except as otherwise provided in this subtitle, the*  
10 *amendments made by this subtitle shall apply to—*

11                   (1) *housing credit dollar amounts allocated after*  
12                   *December 31, 2000, and*

13                   (2) *buildings placed in service after such date to*  
14 *the extent paragraph (1) of section 42(h) of the Inter-*  
15 *nal Revenue Code of 1986 does not apply to any*  
16 *building by reason of paragraph (4) thereof, but only*  
17 *with respect to bonds issued after such date.*

1    ***Subtitle E—Entrepreneurial Equity***  
 2                   ***Capital Formation***

3    ***PART I—TAX-FREE CONVERSIONS OF SPECIAL-***  
 4           ***IZED SMALL BUSINESS INVESTMENT COMPA-***  
 5           ***NIES INTO PASS-THRU ENTITIES***

6    ***SEC. 1341. MODIFICATIONS TO PROVISIONS RELATING TO***  
 7                   ***REGULATED INVESTMENT COMPANIES.***

8           (a) *IN GENERAL.*—Section 851 (relating to definition  
 9    of regulated investment company) is amended by adding  
 10   at the end the following new subsection:

11           “(i) *SPECIAL RULES FOR SPECIALIZED SMALL BUSI-*  
 12   *NESS INVESTMENT COMPANIES.*—

13                   “(1) *IN GENERAL.*—For purposes of determining  
 14    whether a specialized small business investment com-  
 15    pany is a regulated investment company for purposes  
 16    of this subchapter—

17                           “(A) income derived from an investment as  
 18    a limited partner in a partnership shall be treat-  
 19    ed as qualifying income under subsection (b)(2)  
 20    if—

21                                   “(i) the company does not participate  
 22    in the active management of the normal  
 23    business operations of the partnership, and

24                                   “(ii) the company’s investment in such  
 25    partnership is an investment permitted for

1           *specialized small business investment com-*  
2           *panies under the Small Business Invest-*  
3           *ment Act of 1958, and*

4           “(B) *the requirements of subsection (b)(3)*  
5           *shall be treated as met if, at the close of each*  
6           *quarter of the taxable year, at least 50 percent*  
7           *of the value of its total assets is represented by—*

8                   “(i) *assets described in subsection*  
9                   *(b)(3)(A)(i), and*

10                   “(ii) *other investments permitted to be*  
11                   *made by a specialized small business invest-*  
12                   *ment company under the Small Business*  
13                   *Investment Act of 1958.*

14           “(2) *COORDINATION OF DISTRIBUTION REQUIRE-*  
15           *MENTS WITH SBIC REQUIREMENTS.—A specialized*  
16           *small business investment company shall be treated as*  
17           *meeting the requirements of section 852(a)(1) if the*  
18           *deduction for dividends paid during the taxable year*  
19           *(as defined in section 561, but without regard to cap-*  
20           *ital gain dividends) equals or exceeds the lesser of the*  
21           *amount required under section 852(a)(1) or 100 per-*  
22           *cent of the maximum amount that the company*  
23           *would be permitted to distribute during such year*  
24           *under the Small Business Investment Act of 1958.*



1           “(3) *SPECIALIZED SMALL BUSINESS INVESTMENT*  
 2           *COMPANY.*—*For purposes of this subsection, the term*  
 3           *‘specialized small business investment company’ has*  
 4           *the meaning given to such term by section 1044(c)(3).*

5           “(4) *REFERENCES TO 1958 ACT.*—*For purposes of*  
 6           *this subsection, references to the Small Business In-*  
 7           *vestment Act of 1958 shall be treated as references to*  
 8           *such Act as in effect on May 13, 1993.”*

9           (b) *EFFECTIVE DATE.*—*The amendment made by this*  
 10          *section shall apply to taxable years beginning after the date*  
 11          *of enactment of this Act.*

12       **SEC. 1342. TAX-FREE REORGANIZATION OF SPECIALIZED**  
 13                               **SMALL BUSINESS INVESTMENT COMPANY AS**  
 14                               **A PARTNERSHIP.**

15          (a) *IN GENERAL.*—*If, within 180 days after the date*  
 16          *of the enactment of this Act, a corporation which is a spe-*  
 17          *cialized small business investment company transfers sub-*  
 18          *stantially all of its assets to a partnership (including its*  
 19          *license to operate as a specialized small business investment*  
 20          *company) solely in exchange for partnership interests in*  
 21          *such partnership, no gain or loss shall be recognized to the*  
 22          *corporation on such a transfer if—*

23               (1) *immediately after such exchange, such cor-*  
 24               *poration holds partnership interests in such partner-*  
 25               *ship having a value equal to at least 80 percent of the*

1        *total value of all partnership interests in such part-*  
 2        *nership, and*

3            *(2) before the 90th day after such exchange, such*  
 4        *corporation transfers all partnership interests held by*  
 5        *the corporation in such partnership, and all remain-*  
 6        *ing assets of the corporation, to its shareholders in the*  
 7        *complete liquidation of such corporation.*

8        *(b) NONRECOGNITION OF GAIN OR LOSS TO CORPORA-*  
 9        *TION ON DISTRIBUTION OF PARTNERSHIP INTERESTS.—In*  
 10       *the case of any distribution of a partnership interest ac-*  
 11       *quired by the liquidating corporation in an exchange to*  
 12       *which subsection (a) applies—*

13           *(1) no gain or loss shall be recognized to the liq-*  
 14        *uidating corporation by reason of such distribution,*  
 15        *and*

16           *(2) such distribution shall not be treated as a*  
 17        *sale or exchange for purposes of section 708(b)(1)(B)*  
 18        *of the Internal Revenue Code of 1986.*

19        *(c) GAIN RECOGNIZED BY SHAREHOLDERS ON RE-*  
 20        *CEIPT OF PROPERTY OTHER THAN PARTNERSHIP INTER-*  
 21        *ESTS.—*

22           *(1) IN GENERAL.—No gain or loss shall be recog-*  
 23        *nized to a shareholder of a corporation on the transfer*  
 24        *of such shareholder's stock in such corporation to such*  
 25        *corporation solely in exchange for a partnership in-*

1        *terest in the partnership referred to in subsection*  
 2        *(a)(1).*

3            *(2) RECEIPT OF PROPERTY.—If paragraph (1)*  
 4        *would apply to an exchange but for the fact that there*  
 5        *is received, in addition to the partnership interests*  
 6        *permitted to be received under paragraph (1), other*  
 7        *property or money, then—*

8            *(A) gain (if any) to such recipient shall be*  
 9        *recognized, but not in excess of—*

10            *(i) the amount of money received, plus*

11            *(ii) the fair market value of such other*  
 12        *property received, and*

13            *(B) no loss to such recipient shall be recog-*  
 14        *nized.*

15        *(d) BASIS.—The basis of property received in any ex-*  
 16        *change to which this section applies shall be determined in*  
 17        *accordance with rules similar to the rules of section 358*  
 18        *of the Internal Revenue Code of 1986.*

19        *(e) ADDITIONAL REQUIREMENTS.—This section shall*  
 20        *not apply to any specialized small business investment com-*  
 21        *pany unless—*

22            *(1) such company elects to be subject to tax on*  
 23        *its built-in gains computed in a manner similar to*  
 24        *that provided in section 1374 of such Code (without*

1        *regard to any recognition period (as defined in sub-*  
 2        *section (d)(7) thereof)), and*

3            *(2) such company distributes all of its accumu-*  
 4        *lated earnings and profits (in distributions to which*  
 5        *section 301 of such Code applies) before its liquida-*  
 6        *tion under this section.*

7    *If, after making an election under paragraph (1), a com-*  
 8    *pany ceases to be a specialized small business investment*  
 9    *company, such company shall be treated as having disposed*  
 10   *of all of its assets for purposes of applying paragraph (1).*

11        *(f) SPECIALIZED SMALL BUSINESS INVESTMENT COM-*  
 12   *PANY.—For purposes of this section, the term “specialized*  
 13   *small business investment company” has the meaning given*  
 14   *to such term by section 1044(c)(3) of such Code.*

15    **PART II—ADDITIONAL INCENTIVES RELATED TO**  
 16        **INVESTING IN SPECIALIZED SMALL BUSI-**  
 17        **NESS INVESTMENT COMPANIES**

18    **SEC. 1346. EXPANSION OF NONRECOGNITION TREATMENT**  
 19            **FOR SECURITIES GAIN ROLLED OVER INTO**  
 20            **SPECIALIZED SMALL BUSINESS INVESTMENT**  
 21            **COMPANIES.**

22        *(a) EXTENSION OF ROLLOVER PERIOD.—Paragraph*  
 23   *(1) of section 1044(a) (relating to nonrecognition of gain)*  
 24   *is amended by striking “60-day period” and inserting*  
 25   *“180-day period”.*

1       **(b) INCREASE OF MAXIMUM EXCLUSION.**—

2               **(1) IN GENERAL.**—*Paragraphs (1) and (2) of*  
 3       *section 1044(b) (relating to limitations) are amended*  
 4       *to read as follows:*

5               **“(1) LIMITATION ON INDIVIDUALS.**—*In the case*  
 6       *of an individual, the amount of gain which may be*  
 7       *excluded under subsection (a) for any taxable year*  
 8       *shall not exceed—*

9               **“(A) \$750,000, reduced by**

10              **“(B) the amount of gain excluded under**  
 11       *subsection (a) for all preceding taxable years.*

12              **“(2) LIMITATION ON C CORPORATIONS.**—*In the*  
 13       *case of a C corporation, the amount of gain which*  
 14       *may be excluded under subsection (a) for any taxable*  
 15       *year shall not exceed—*

16              **“(A) \$2,000,000, reduced by**

17              **“(B) the amount of gain excluded under**  
 18       *subsection (a) for all preceding taxable years.”*

19              **(2) CONFORMING AMENDMENT.**—*Subparagraph*  
 20       *(A) of section 1044(b)(3) (relating to special rules for*  
 21       *married individuals) is amended to read as follows:*

22              **“(A) SEPARATE RETURNS.**—*In the case of a*  
 23       *separate return by a married individual, para-*  
 24       *graph (1) shall be applied by substituting*  
 25       *‘\$375,000’ for ‘\$750,000’.*”

1       (c) *EXTENSION TO PREFERRED STOCK.*—Paragraph  
2       (1) of section 1044(a) is amended by striking “common”.

3       (d) *EFFECTIVE DATE.*—The amendments made by this  
4       section shall apply to sales occurring after the date of the  
5       enactment of this Act.

6       **SEC. 1347. MODIFICATIONS TO EXCLUSION FOR GAIN FROM**  
7                               **QUALIFIED SMALL BUSINESS STOCK.**

8       (a) *IN GENERAL.*—Section 1202 (relating to 50-per-  
9       cent exclusion for gain from certain small business stock)  
10      is amended by redesignating subsection (k) as subsection  
11      (l) and by inserting after subsection (j) the following new  
12      subsection:

13               “(k) *SPECIAL RULES FOR SPECIALIZED SMALL BUSI-*  
14      *NESS INVESTMENT COMPANIES.*—

15                       “(1) *INCREASE IN EXCLUSION.*—In the case of—

16                               “(A) the sale or exchange of stock in a spe-  
17                               cialized small business investment company, and

18                               “(B) any amount treated under subsection  
19                               (g) as gain described in subsection (a) by reason  
20                               of the sale or exchange of stock in a specialized  
21                               small business investment company,

22      subsection (a) shall be applied by substituting ‘60  
23      percent’ for ‘50 percent’.

24                       “(2) *WAIVER OF ACTIVE BUSINESS REQUIRE-*  
25      *MENT.*—Notwithstanding any provision of subsection

1       (e), a corporation shall be treated as meeting the ac-  
 2       tive business requirements of such subsection for any  
 3       period during which such corporation qualifies as a  
 4       specialized small business investment company.

5               “(3) *SPECIALIZED SMALL BUSINESS INVESTMENT*  
 6       *COMPANY.*—For purposes of this section, the term  
 7       ‘specialized small business investment company’  
 8       means any eligible corporation (as defined in sub-  
 9       section (e)(4)) which is licensed to operate under sec-  
 10      tion 301(d) of the Small Business Investment Act of  
 11      1958 (as in effect on May 13, 1993).”

12      (b) *CONFORMING AMENDMENT.*—Section 1202(c)(2) is  
 13      amended to read as follows:

14              “(2) *ACTIVE BUSINESS REQUIREMENT, ETC.*—  
 15      Stock in a corporation shall not be treated as quali-  
 16      fied small business stock unless, during substantially  
 17      all of the taxpayer’s holding period for such stock,  
 18      such corporation meets the active business require-  
 19      ments of subsection (e) and such corporation is a C  
 20      corporation.”

21      (c) *EFFECTIVE DATE.*—The amendments made by this  
 22      section shall apply to sales and exchanges occurring after  
 23      the date of the enactment of this Act.

## ***Subtitle F—Other Provisions***

### ***SEC. 1351. INCREASE IN VOLUME CAP ON PRIVATE ACTIVITY BONDS.***

*(a) IN GENERAL.—Subsection (d) of section 146 (relating to volume cap) is amended by striking paragraph (2), by redesignating paragraphs (3) and (4) as paragraphs (2) and (3), respectively, and by striking paragraph (1) and inserting the following new paragraph:*

*“(1) IN GENERAL.—The State ceiling applicable to any State for any calendar year shall be the greater of—*

*“(A) an amount equal to \$75 multiplied by the State population, or*

*“(B) \$225,000,000.*

*Subparagraph (B) shall not apply to any possession of the United States.”.*

*(b) CONFORMING AMENDMENT.—Sections 25(f)(3) and 42(h)(3)(E)(iii) are each amended by striking “section 146(d)(3)(C)” and inserting “section 146(d)(2)(C)”.*

*(c) EFFECTIVE DATE.—The amendments made by this section shall apply to calendar years after 1999.*

### ***SEC. 1352. TAX TREATMENT OF ALASKA NATIVE SETTLEMENT TRUSTS.***

*(a) IN GENERAL.—Subpart A of part I of subchapter J of chapter 1 (relating to general rules for taxation of*



1 *trusts and estates) is amended by adding at the end the*  
 2 *following new section:*

3 **“SEC. 646. ELECTING ALASKA NATIVE SETTLEMENT**  
 4 **TRUSTS.**

5 *“(a) IN GENERAL.—Except as otherwise provided in*  
 6 *this section, the provisions of this subchapter and section*  
 7 *1(e) shall apply to all Settlement Trusts.*

8 *“(b) BENEFICIARIES OF ELECTING TRUST NOT TAXED*  
 9 *ON CONTRIBUTIONS.—*

10 *“(1) IN GENERAL.—In the case of a Settlement*  
 11 *Trust for which an election under paragraph (2) is*  
 12 *in effect for any taxable year, no amount shall be in-*  
 13 *cludible in the gross income of a beneficiary of the*  
 14 *Settlement Trust by reason of a contribution to the*  
 15 *Settlement Trust made during such taxable year.*

16 *“(2) ONE-TIME ELECTION.—*

17 *“(A) IN GENERAL.—A Settlement Trust*  
 18 *may elect to have the provisions of this section*  
 19 *apply to the trust and its beneficiaries.*

20 *“(B) TIME AND METHOD OF ELECTION.—*  
 21 *An election under subparagraph (A) shall be*  
 22 *made—*

23 *“(i) before the due date (including ex-*  
 24 *tensions) for filing the Settlement Trust’s*  
 25 *return of tax for the 1st taxable year of the*

1                   *Settlement Trust ending after December 31,*  
2                   *1999, and*

3                   “(ii) by attaching to such return of tax  
4                   a statement specifically providing for such  
5                   election.

6                   “(C) *PERIOD ELECTION IN EFFECT.*—*Ex-*  
7                   *cept as provided in paragraph (3), an election*  
8                   *under subparagraph (A)—*

9                   “(i) shall apply to the 1st taxable year  
10                  described in subparagraph (B)(i) and all  
11                  subsequent taxable years, and

12                  “(ii) may not be revoked once it is  
13                  made.

14                  “(c) *SPECIAL RULES WHERE TRANSFER RESTRIC-*  
15                  *TIONS MODIFIED.—*

16                  “(1) *TRANSFER OF BENEFICIAL INTERESTS.*—*If,*  
17                  *at any time, a beneficial interest in a Settlement*  
18                  *Trust may be disposed of to a person in a manner*  
19                  *which would not be permitted by section 7(h) of the*  
20                  *Alaska Native Claims Settlement Act (43 U.S.C.*  
21                  *1606(h)) if the interest were Settlement Common*  
22                  *Stock—*

23                  “(A) no election may be made under sub-  
24                  section (b)(2) with respect to such trust, and

1           “(B) if such an election is in effect as of  
 2           such time, such election shall cease to apply for  
 3           purposes of subsection (b)(1) as of the 1st day of  
 4           the taxable year following the taxable year in  
 5           which such disposition is first permitted.

6           “(2) STOCK IN CORPORATION.—If—

7           “(A) the Settlement Common Stock in any  
 8           Native Corporation which transferred assets to a  
 9           Settlement Trust making an election under sub-  
 10          section (b)(2) may be disposed of to a person in  
 11          a manner not permitted by section 7(h) of the  
 12          Alaska Native Claims Settlement Act (43 U.S.C.  
 13          1606(h)), and

14          “(B) at any time after such disposition of  
 15          stock is first permitted, such corporation trans-  
 16          fers assets to such trust,

17          subparagraph (B) of paragraph (1) shall be applied  
 18          to such trust on and after the date of the transfer in  
 19          the same manner as if the trust permitted disposi-  
 20          tions of beneficial interests in the trust in a manner  
 21          not permitted by such section 7(h).

22          “(c) TAX TREATMENT OF DISTRIBUTIONS TO BENE-  
 23          FICIARIES.—

24          “(1) IN GENERAL.—In the case of a Settlement  
 25          Trust for which an election under subsection (b)(2) is

1     *in effect for any taxable year, any distribution to a*  
 2     *beneficiary shall be included in gross income of the*  
 3     *beneficiary as ordinary income to the extent such dis-*  
 4     *tribution reduces the earnings and profits of any Na-*  
 5     *tive Corporation making a contribution to such*  
 6     *Trust.*

7             “(2) *EARNINGS AND PROFITS.*—*The earnings*  
 8     *and profits of any Native Corporation making a con-*  
 9     *tribution to a Settlement Trust shall not be reduced*  
 10    *on account thereof at the time of such contribution,*  
 11    *but such earnings and profits shall be reduced (up to*  
 12    *the amount of such contribution) as distributions are*  
 13    *thereafter made by the Settlement Trust which exceed*  
 14    *the sum of—*

15             “(A) *such Trust’s total undistributed net in-*  
 16     *come for all prior years during which an election*  
 17     *under subsection (b)(2) is in effect, and*

18             “(B) *such Trust’s distributable net income.*

19             “(d) *DEFINITIONS.*—*For purposes of this section—*

20             “(1) *NATIVE CORPORATION.*—*The term ‘Native*  
 21     *Corporation’ has the meaning given such term by sec-*  
 22     *tion 3(m) of the Alaska Native Claims Settlement Act*  
 23     *(43 U.S.C. 1602(m)).*

24             “(2) *SETTLEMENT TRUST.*—*The term ‘Settlement*  
 25     *Trust’ means a trust which constitutes a Settlement*

1       *Trust under section 39 of the Alaska Native Claims*  
 2       *Settlement Act (43 U.S.C. 1629e).’’*

3       **(b) WITHHOLDING ON DISTRIBUTIONS BY ELECTING**  
 4       **ANCSA SETTLEMENT TRUSTS.**—*Section 3402 is amended*  
 5       *by adding at the end the following new subsection:*

6       **“(t) TAX WITHHOLDING ON DISTRIBUTIONS BY**  
 7       **ELECTING ANCSA SETTLEMENT TRUSTS.—**

8               **“(1) IN GENERAL.**—*Any Settlement Trust (as de-*  
 9       *finied in section 646(d)) for which an election under*  
 10       *section 646(b)(2) is in effect (in this subsection re-*  
 11       *ferred to as an ‘electing trust’) and which makes a*  
 12       *payment to any beneficiary which is includable in*  
 13       *gross income under section 646(c) shall deduct and*  
 14       *withhold from such payment a tax in an amount*  
 15       *equal to such payment’s proportionate share of the*  
 16       *annualized tax.*

17               **“(2) EXCEPTION.**—*The tax imposed by para-*  
 18       *graph (1) shall not apply to any payment to the ex-*  
 19       *tent that such payment, when annualized, does not*  
 20       *exceed an amount equal to the amount in effect under*  
 21       *section 6012(a)(1)(A)(i) for taxable years beginning*  
 22       *in the calendar year in which the payment is made.*

23               **“(3) ANNUALIZED TAX.**—*For purposes of para-*  
 24       *graph (1), the term ‘annualized tax’ means, with re-*  
 25       *spect to any payment, the amount of tax which would*

1        *be imposed by section 1(c) (determined without re-*  
 2        *gard to any rate of tax in excess of 31 percent) on*  
 3        *an amount of taxable income equal to the excess of—*

4                *“(A) the annualized amount of such pay-*  
 5                *ment, over*

6                *“(B) the amount determined under para-*  
 7                *graph (2).*

8                *“(4) ANNUALIZATION.—For purposes of this sub-*  
 9        *section, amounts shall be annualized in the manner*  
 10        *prescribed by the Secretary.*

11                *“(5) ALTERNATE WITHHOLDING PROCEDURES.—*  
 12        *At the election of an electing trust, the tax imposed*  
 13        *by this subsection on any payment made by such*  
 14        *trust shall be determined in accordance with such ta-*  
 15        *bles or computational procedures as may be specified*  
 16        *in regulations prescribed by the Secretary (in lieu of*  
 17        *in accordance with paragraphs (2) and (3)).*

18                *“(6) COORDINATION WITH OTHER SECTIONS.—*  
 19        *For purposes of this chapter and so much of subtitle*  
 20        *F as relates to this chapter, payments which are sub-*  
 21        *ject to withholding under this subsection shall be*  
 22        *treated as if they were wages paid by an employer to*  
 23        *an employee.”*

24        *(c) REPORTING.—Section 6041 is amended by adding*  
 25        *at the end the following new subsection:*

1       “(f) *APPLICATION TO ALASKA NATIVE SETTLEMENT*  
 2 *TRUSTS.*—*In the case of any distribution from a Settlement*  
 3 *Trust (as defined in section 646(d)) to a beneficiary which*  
 4 *is includable in gross income under section 646(c), this sec-*  
 5 *tion shall apply, except that—*

6               “(1) *this section shall apply to such distribution*  
 7 *without regard to the amount thereof,*

8               “(2) *the Settlement Trust shall include on any*  
 9 *return or statement required by this section informa-*  
 10 *tion as to the character of such distribution (if appli-*  
 11 *cable) and the amount of tax imposed by chapter 1*  
 12 *which has been deducted and withheld from such dis-*  
 13 *tribution, and*

14               “(3) *the filing of any return or statement re-*  
 15 *quired by this section shall satisfy any requirement to*  
 16 *file any other form or schedule under this title with*  
 17 *respect to distributive share information (including*  
 18 *any form or schedule to be included with the trust’s*  
 19 *tax return).”*

20       “(d) *CLERICAL AMENDMENT.*—*The table of sections for*  
 21 *subpart A of part I of subchapter J of chapter 1 is amended*  
 22 *by adding at the end the following new item:*

      “Sec. 646. *Electing Alaska Native Settlement Trusts.*”

23       “(e) *EFFECTIVE DATE.*—*The amendments made by this*  
 24 *section shall apply to taxable years of Settlement Trusts*

1 *ending after December 31, 1999, and to contributions to*  
2 *such trusts after such date.*

3 **SEC. 1353. INCREASE IN THRESHOLD FOR JOINT COM-**  
4 **MITTEE REPORTS ON REFUNDS AND CRED-**  
5 **ITS.**

6 *(a) GENERAL RULE.—Subsections (a) and (b) of sec-*  
7 *tion 6405 are each amended by striking “\$1,000,000” and*  
8 *inserting “\$2,000,000”.*

9 *(b) EFFECTIVE DATE.—The amendment made by sub-*  
10 *section (a) shall take effect on the date of the enactment*  
11 *of this Act, except that such amendment shall not apply*  
12 *with respect to any refund or credit with respect to a report*  
13 *that has been made before such date of enactment under*  
14 *section 6405 of the Internal Revenue Code of 1986.*

15 **SEC. 1354. CLARIFICATION OF DEPRECIATION STUDY.**

16 *Paragraph (1) of section 2022 of the Tax and Trade*  
17 *Relief Extension Act of 1998 (Public Law 105–277; 112*  
18 *Stat. 2681-903) is amended by inserting after “1986,” the*  
19 *following: “including such periods and methods applicable*  
20 *to section 1250 property used in connection with a fran-*  
21 *chise (within the meaning of section 1253) and owned by*  
22 *the franchisee,”.*



1     ***Subtitle G—Tax Court Provisions***

2     ***SEC. 1361. TAX COURT FILING FEE IN ALL CASES COM-***  
 3                 ***MENCED BY FILING PETITION.***

4             (a) *IN GENERAL.*—Section 7451 (relating to fee for fil-  
 5     ing a Tax Court petition) is amended by striking all that  
 6     follows “petition” and inserting a period.

7             (b) *EFFECTIVE DATE.*—The amendment made by this  
 8     section shall take effect on the date of the enactment of this  
 9     Act.

10    ***SEC. 1362. EXPANDED USE OF TAX COURT PRACTICE FEE.***

11            Subsection (b) of section 7475 (relating to use of fees)  
 12    is amended by inserting before the period at the end “and  
 13    to provide services to pro se taxpayers”.

14    ***SEC. 1363. CONFIRMATION OF AUTHORITY OF TAX COURT***  
 15                 ***TO APPLY DOCTRINE OF EQUITABLE***  
 16                 ***RECOUPMENT.***

17            (a) *CONFIRMATION OF AUTHORITY OF TAX COURT TO*  
 18    *APPLY DOCTRINE OF EQUITABLE RECOUPMENT.*—Sub-  
 19    section (b) of section 6214 (relating to jurisdiction over  
 20    other years and quarters) is amended by adding at the end  
 21    the following new sentence: “Notwithstanding the preceding  
 22    sentence, the Tax Court may apply the doctrine of equitable  
 23    recoupment to the same extent that it is available in civil  
 24    tax cases before the district courts of the United States and  
 25    the United States Court of Federal Claims.”.

1       (b) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall apply to any action or proceeding in the Tax*  
 3 *Court with respect to which a decision has not become final*  
 4 *(as determined under section 7481 of the Internal Revenue*  
 5 *Code of 1986) as of the date of the enactment of this Act.*

6       ***Subtitle H—Tax-Free Transfer of***  
 7       ***Bottled Distilled Spirits to Bond-***  
 8       ***ed Dealers***

9       ***SEC. 1371. TAX-FREE TRANSFER OF BOTTLED DISTILLED***  
 10       ***SPIRITS FROM DISTILLED SPIRITS PLANT TO***  
 11       ***BONDED DEALER.***

12       (a) *DOMESTIC BOTTLED DISTILLED SPIRITS.*—

13               (1) *IN GENERAL.*—*The last sentence of section*  
 14       5212 *is amended by inserting before the period “and*  
 15       *shall not apply to bottled distilled spirits transferred*  
 16       *from a distilled spirits plant (other than a bonded*  
 17       *dealer) to a bonded dealer if the proprietor of such*  
 18       *plant notifies (in such form and manner as the Sec-*  
 19       *retary prescribes by regulations) such bonded dealer*  
 20       *of the amount of tax determined on the distilled spir-*  
 21       *its so transferred”.*

22               (2) *TRANSFER OF LIABILITY CONTINGENT ON*  
 23       *FURNISHING OF CERTAIN INFORMATION.*—*Paragraph*  
 24       (2) *of section 5005(c) is amended by adding at the*  
 25       *end the following new sentence: “In the case of a*

1        *transfer of bottled distilled spirits from a distilled*  
 2        *spirits plant to a bonded dealer, the preceding provi-*  
 3        *sions of this subsection shall apply only to the extent*  
 4        *of the amount specified by the proprietor of such*  
 5        *plant in accordance with the last sentence of section*  
 6        *5212.”*

7        *(b) COMPARABLE TREATMENT FOR IMPORTED BOT-*  
 8        *TLED DISTILLED SPIRITS.—Subsection (a) of section 5232*  
 9        *is amended to read as follows:*

10        *“(a) TRANSFER TO DISTILLED SPIRITS PLANT WITH-*  
 11        *OUT PAYMENT OF TAX.—*

12                *“(1) IN GENERAL.—Distilled spirits imported or*  
 13        *brought into the United States in bulk containers*  
 14        *may, under such regulations as the Secretary shall*  
 15        *prescribe, be withdrawn from customs custody and*  
 16        *transferred in such bulk containers or by pipeline to*  
 17        *the bonded premises of a distilled spirits plant with-*  
 18        *out payment of the internal revenue tax imposed on*  
 19        *such distilled spirits by section 5001.*

20                *“(2) IMPORTED BOTTLED DISTILLED SPIRITS.—*  
 21        *The restriction under paragraph (1) to transfers in*  
 22        *bulk or by pipeline shall not apply to bottled distilled*  
 23        *spirits transferred from customs custody to a bonded*  
 24        *dealer if the proprietor of the customs bonded ware-*  
 25        *house notifies (in such form and manner as the Sec-*

1       retary prescribes by regulations) such bonded dealer  
 2       of the amount of tax determined on the distilled spir-  
 3       its so transferred.

4               “(3) *TRANSFER OF LIABILITY.*—The person oper-  
 5       ating the bonded premises of the distilled spirits plant  
 6       to which such spirits are transferred shall become lia-  
 7       ble for the tax on distilled spirits withdrawn from  
 8       customs custody under this section upon release of the  
 9       spirits from customs custody, and the importer, or the  
 10      person bringing such distilled spirits into the United  
 11      States, shall thereupon be relieved of his liability for  
 12      such tax. In the case of a transfer of bottled distilled  
 13      spirits from a customs bonded warehouse to a bonded  
 14      dealer, the preceding sentence shall apply only to the  
 15      extent of the amount specified by the proprietor of  
 16      such warehouse in accordance with paragraph (2).”

17      (c) *PENALTY FOR FALSE OR ERRONEOUS INFORMA-*  
 18      *TION TO BONDED DEALERS.*—

19              (1) *IN GENERAL.*—Section 5684 is amended by  
 20      redesignating subsections (b) and (c) as subsections  
 21      (c) and (d), respectively, and inserting after sub-  
 22      section (a) the following new subsection:

23              “(b) *FALSE OR ERRONEOUS INFORMATION TO BONDED*  
 24      *DEALERS.*—Any distilled spirits plant or importer which  
 25      furnishes false or erroneous information to a bonded dealer

1 *relating to the amount of tax determined on a product, as*  
 2 *required under sections 5212 and 5232, shall, in addition*  
 3 *to any other penalty imposed by this title, be liable for a*  
 4 *penalty equal to the greater of \$1,000 or 5 times the amount*  
 5 *of additional tax due on the product.”*

6 (2) *CONFORMING AMENDMENT.—Subsection (c)*  
 7 *of section 5684, as redesignated by paragraph (1), is*  
 8 *amended by striking “subsection (a)” and inserting*  
 9 *“subsections (a) and (b)”.*

10 **SEC. 1372. ESTABLISHMENT OF DISTILLED SPIRITS PLANT.**

11 *Section 5171 is amended—*

12 (1) *by striking from subsection (a) “or proc-*  
 13 *essor” and inserting “processor, or bonded dealer”,*  
 14 *and*

15 (2) *by striking from subsection (b) “or both.”*  
 16 *and inserting “as a bonded dealer, or as any com-*  
 17 *bination thereof.”*

18 **SEC. 1373. DISTILLED SPIRITS PLANTS.**

19 *Section 5178(a) is amended by adding at the end the*  
 20 *following new paragraph:*

21 “(5) *BONDED DEALER OPERATIONS.—Any per-*  
 22 *son establishing a distilled spirits plant to conduct*  
 23 *operations as a bonded dealer may, as described in*  
 24 *the application for registration—*

1           “(A) store distilled spirits in any approved  
2           container on the bonded premises of such plant,  
3           and

4           “(B) under such regulations as the Sec-  
5           retary shall prescribe, store taxpaid distilled  
6           spirits, beer and wine and such other beverages  
7           and items (products) not subject to tax or regula-  
8           tion under this title on such bonded premises.”

9   **SEC. 1374. BONDED DEALERS.**

10       (a) *IN GENERAL*.—Subpart A of part I of subchapter  
11   A of chapter 51 (relating to distilled spirits) is amended  
12   by adding at the end the following new section:

13   **“SEC. 5011. ELECTION TO BE TREATED AS BONDED DEALER.**

14       “(a) *ELECTION*.—

15           “(1) *IN GENERAL*.—Any wholesale dealer, or any  
16       control State entity, may elect to be treated as a  
17       bonded dealer if such wholesale dealer or entity sells  
18       bottled distilled spirits exclusively to 1 or more of the  
19       following: wholesale dealers in liquor, independent re-  
20       tail dealers, or other bonded dealers.

21           “(2) *ELECTION BY CERTAIN ENTITIES NOT PER-*  
22       *MITTED*.—

23           “(A) *RETAIL DEALERS*.—Except in the case  
24       of a control State entity, the election under para-

1           *graph (1) may not be made by a retail dealer in*  
2           *liquor.*

3           “(B) *SMALL DEALERS.*—*The election under*  
4           *paragraph (1) may not be made by any person*  
5           *who is part of a group treated as a single tax-*  
6           *payer under section 5061(e)(3) if the gross re-*  
7           *ceipts of such group from the sale of distilled*  
8           *spirits during the 12-month period prior to mak-*  
9           *ing such election is less than \$10,000,000.*

10          “(3) *CONTROL STATE ENTITIES PERMITTED TO*  
11          *SELL TO RELATED RETAIL DEALERS.*—*In the case of*  
12          *a control State entity, paragraph (1) shall be applied*  
13          *by substituting ‘retail dealers’ for ‘independent retail*  
14          *dealers’.*

15          “(b) *INDEPENDENT RETAIL DEALER.*—*For purposes of*  
16          *subsection (a), the term ‘independent retail dealer’ means,*  
17          *with respect to a bonded dealer, any retail dealer if—*

18                 “(1) *the bonded dealer does not have a greater*  
19                 *than 10 percent ownership interest in, or control of,*  
20                 *the retail dealer,*

21                 “(2) *the retail dealer does not have a greater*  
22                 *than 10 percent ownership interest in, or control of,*  
23                 *the bonded dealer, and*

1           “(3) no person has a greater than 10 percent  
2           ownership interest in, or control of, both the bonded  
3           and retail dealer.

4           For purposes of this subsection, rules similar to the rules  
5           of section 318 shall apply.

6           “(c) *INVENTORY OWNED AT TIME OF ELECTION.*—Any  
7           bottled distilled spirits in the inventory of any person elect-  
8           ing under this section to be treated as a bonded dealer shall  
9           not be subject to additional Federal excise tax on such spir-  
10          its as a result of the election being in effect to the extent  
11          that the bonded dealer establishes that the Federal excise  
12          tax previously has been determined and paid at the time  
13          the election becomes effective.

14          “(d) *REVOCATION OF ELECTION.*—The election made  
15          under this section may be revoked by the bonded dealer at  
16          any time, but once revoked shall not be made again without  
17          the consent of the Secretary. When the election is revoked,  
18          the bonded dealer shall immediately withdraw the distilled  
19          spirits on determination of tax in accordance with a tax  
20          payment procedure established by the Secretary.

21          “(e) *APPROVAL OF APPLICATION.*—Any application  
22          under section 5171(c) submitted by a person electing to be  
23          treated as a bonded dealer shall be subject to the same condi-  
24          tions as an application for a basic permit under section  
25          204(a)(2) of title 27 of the United States Code (the Federal



1 *Alcohol Administration Act) and shall be accorded notice*  
 2 *and hearing as described in section 204(b) of such title 27.*

3 “(f) *ADDITIONAL TAX.*—

4 “(1) *IN GENERAL.*—*In addition to any other tax*  
 5 *imposed by this chapter, there is hereby imposed on*  
 6 *each bonded dealer a tax for each semimonthly period*  
 7 *under section 5061(d) for which an election under*  
 8 *this section is in effect for such dealer.*

9 “(2) *AMOUNT OF TAX.*—*The tax imposed by this*  
 10 *subsection for any semimonthly period shall be equal*  
 11 *to 1.5 percent of the liability for tax under sections*  
 12 *5001 and 7652 of such dealer for such semimonthly*  
 13 *period.*

14 “(3) *PAYMENT OF TAX.*—*The tax imposed by this*  
 15 *subsection shall be paid with the return of tax for*  
 16 *such semimonthly period.*

17 “(4) *TAXPAYERS NOT PAYING ON SEMIMONTHLY*  
 18 *BASIS.*—*If the taxes referred to in paragraph (2) are*  
 19 *not paid on the basis of semimonthly periods, this*  
 20 *subsection shall be applied by substituting the time*  
 21 *such taxes are required to be paid for such periods.*

22 “(5) *TERMINATION.*—*The tax imposed by this*  
 23 *subsection shall not apply to any semimonthly period*  
 24 *ending after December 31, 2010.”*

25 (b) *CONFORMING AMENDMENTS.*—

1           (1) *Section 5002(a) is amended by adding the*  
 2           *end the following new paragraphs:*

3           “(16) *BONDED DEALER.*—*The term ‘bonded deal-*  
 4           *er’ means any person who has elected under section*  
 5           *5011 to be treated as a bonded dealer.*”

6           “(17) *CONTROL STATE ENTITY.*—*The term ‘con-*  
 7           *trol State entity’ means a State or a political sub-*  
 8           *division of a State in which only the State or a polit-*  
 9           *ical subdivision thereof is allowed under applicable*  
 10          *law to perform distilled spirit operations, or any in-*  
 11          *strumentality of such a State or political subdivi-*  
 12          *sion.*”

13          (2) *The table of sections of subpart A of part I*  
 14          *of subchapter A of chapter 51 and the table of con-*  
 15          *tents of subtitle E are each amended by adding at the*  
 16          *appropriate places:*

                  “*Sec. 5011. Election to be treated as bonded dealer.*”

17   **SEC. 1375. TIME FOR COLLECTING TAX ON DISTILLED SPIR-**  
 18                   **ITS.**

19          (a) *IN GENERAL.*—*Section 5061(d) is amended by*  
 20          *adding at the end the following new paragraph:*

21               “(6) *ADVANCED PAYMENT OF DISTILLED SPIRITS*  
 22               *TAX BY BONDED DEALERS.*—*Notwithstanding the pre-*  
 23               *ceding provisions of this subsection, in the case of any*  
 24               *tax imposed by section 5001, 5011(f), or 7652 with*  
 25               *respect to a bonded dealer who has an election under*

14 *SEC. 1376. EXEMPTION FROM OCCUPATIONAL TAX NOT AP-*  
15 *PLICABLE.*

21 *SEC. 1377. TECHNICAL, CONFORMING, AND CLERICAL*  
22 *AMENDMENTS.*

24 (1) Section 5003(3) is amended by striking “cer-  
25 tain”.

1           (2) *Subsection (a) of section 5214 is amended by*  
2           *inserting “(other than a bonded dealer)” after “dis-*  
3           *tilled spirits plant”.*

4           (3) *Section 5362(b)(5) is amended by adding at*  
5           *the end the following new sentence: “This term shall*  
6           *not apply to premises used for operations as a bonded*  
7           *dealer.”.*

8           (4) *Section 5551(a) is amended by inserting*  
9           *“bonded dealer,” after “processor,” each place it ap-*  
10          *pears.*

11          (5) *Section 5601(a) (2), (3), (4), (5), and (b) are*  
12          *amended by inserting “, bonded dealer” before “or*  
13          *processor” each place it appears.*

14          (6) *Section 5602 is amended—*

15                (A) *by inserting “, warehouseman, proc-*  
16                *essor, or bonded dealer” after “distiller”, and*

17                (B) *by inserting “or possessed” after “dis-*  
18                *tilled”.*

19          (7) *Sections 5180 and 5681 are repealed.*

20          (b) *CLERICAL AMENDMENTS.—*

21                (1) *The table of sections for subchapter B of*  
22                *chapter 51 is amended by striking the item relating*  
23                *to section 5180.*

1           (2) *The table of sections for part IV of sub-*  
2       *chapter J of chapter 51 is amended by striking the*  
3       *item relating to section 5681.*

4   **SEC. 1378. COOPERATIVE AGREEMENTS.**

5       (a) *STUDY.*—*The Secretary of the Treasury shall study*  
6       *and report to Congress concerning possible administrative*  
7       *efficiencies which could inure to the benefit of the Federal*  
8       *Government of cooperative agreements with States regard-*  
9       *ing the collection of distilled spirits excise taxes. Such study*  
10      *shall include, but not be limited to, possible benefits of the*  
11      *standardization of forms and collection procedures and*  
12      *shall be submitted 1 year after the date of the enactment*  
13      *of this Act.*

14      (b) *COOPERATIVE AGREEMENT.*—*The Secretary of the*  
15      *Treasury is authorized to enter into such cooperative agree-*  
16      *ments with States which the Secretary deems will increase*  
17      *the efficient collection of distilled spirits excise taxes.*

18   **SEC. 1379. EFFECTIVE DATE.**

19      (a) *IN GENERAL.*—*Except as otherwise provided in*  
20      *this section, the amendments made by this subtitle shall*  
21      *take effect at the beginning of the first calendar quarter that*  
22      *begins after one hundred and twenty days following enact-*  
23      *ment.*

24      (b) *AUTHORITY TO ESTABLISH DISTILLED SPIRITS*  
25      *PLANT.*—

1           (1) *IN GENERAL.*—*The amendments made by sec-*  
 2           *tion 1372 of this Act shall take effect on the date of*  
 3           *enactment of this Act.*

4           (2) *DEEMED QUALIFICATION IN CERTAIN*  
 5           *CASES.*—*Each wholesale dealer—*

6                     *(A) who is required to file an application*  
 7                     *for registration under section 5171(c) of the In-*  
 8                     *ternal Revenue Code of 1986,*

9                     *(B) whose operations are required to be cov-*  
 10                    *ered by a basic permit under the Federal Alcohol*  
 11                    *Administration Act (27 U.S.C. 203 and 204)*  
 12                    *and who has received such a basic permit as an*  
 13                    *importer, wholesaler, or both, and*

14                    *(C) has obtained a bond required under this*  
 15                    *subchapter,*

16           *shall be treated as having such application approved*  
 17           *as of the first day of the first calendar quarter that*  
 18           *begins at least 9 months after the application is filed*  
 19           *until such time as the Secretary or the Secretary's*  
 20           *delegate takes final action on such application.*

21           (3) *CONTROL STATE ENTITIES.*—*In the case of a*  
 22           *control State entity, paragraph (2) shall be applied*  
 23           *without regard to subparagraph (B) thereof.*

24           (c) *EQUITABLE TREATMENT OF BONDED DEALERS*  
 25           *USING LIFO INVENTORY.*—*The Secretary of the Treasury*

1 *or the Secretary's delegate shall provide such rules as may*  
 2 *be necessary to assure that taxpayers using the last-in first-*  
 3 *out method of inventory valuation do not suffer a recapture*  
 4 *of their LIFO reserve by reason of making the election*  
 5 *under section 5011 of such Code or by reason of operating*  
 6 *a bonded wine cellar as permitted by section 5351 of such*  
 7 *Code.*

8 **SEC. 1380. STUDY.**

9 *Not later than June 1, 2002, the Secretary of the*  
 10 *Treasury or the Secretary's delegate shall prepare and sub-*  
 11 *mit to the Congress a report—*

12 *(1) on the extent to which (if any) there has been*  
 13 *a decrease in compliance with the provisions of chap-*  
 14 *ter 51 of the Internal Revenue Code of 1986 by reason*  
 15 *of the amendments made by this subtitle, and*

16 *(2) on any particular compliance issues in ap-*  
 17 *plying the credit allowable by section 5010 of such*  
 18 *Code under the amendments made by this subtitle.*

19 **TITLE XIV—EXTENSIONS OF**  
 20 **EXPIRING PROVISIONS**

21 **SEC. 1401. RESEARCH CREDIT.**

22 *(a) EXTENSION.—*

23 *(1) IN GENERAL.—Paragraph (1) of section*  
 24 *41(h) (relating to termination) is amended—*

1                   (A) by striking “June 30, 1999” and insert-  
2                   ing “June 30, 2004”, and

3                   (B) by striking the material following sub-  
4                   paragraph (B).

5                   (2) *TECHNICAL AMENDMENT.*—Subparagraph  
6                   (D) of section 45C(b)(1) is amended by striking  
7                   “June 30, 1999” and inserting “June 30, 2004”.

8                   (3) *EFFECTIVE DATE.*—The amendments made  
9                   by this subsection shall apply to amounts paid or in-  
10                  curred after June 30, 1999.

11                  (b) *INCREASE IN PERCENTAGES UNDER ALTERNATIVE*  
12 *INCREMENTAL CREDIT.*—

13                  (1) *IN GENERAL.*—Subparagraph (A) of section  
14                  41(c)(4) is amended—

15                         (A) by striking “1.65 percent” and insert-  
16                         ing “2.65 percent”,

17                         (B) by striking “2.2 percent” and inserting  
18                         “3.2 percent”, and

19                         (C) by striking “2.75 percent” and insert-  
20                         ing “3.75 percent”.

21                  (2) *EFFECTIVE DATE.*—The amendments made  
22                  by this subsection shall apply to taxable years begin-  
23                  ning after June 30, 1999.



1 **SEC. 1402. SUBPART F EXEMPTION FOR ACTIVE FINANCING**  
 2 **INCOME.**

3 (a) *IN GENERAL.*—Sections 953(e)(10) and 954(h)(9)  
 4 are each amended—

5 (1) by striking “the first taxable year” and in-  
 6 serting “taxable years”, and

7 (2) by striking “January 1, 2000” and inserting  
 8 “January 1, 2005”.

9 (b) *EFFECTIVE DATE.*—The amendment made by this  
 10 section shall apply to taxable years beginning after Decem-  
 11 ber 31, 1999.

12 **SEC. 1403. TAXABLE INCOME LIMIT ON PERCENTAGE DE-**  
 13 **PLETION FOR MARGINAL PRODUCTION.**

14 (a) *IN GENERAL.*—Subparagraph (H) of section  
 15 613A(c)(6) is amended by striking “January 1, 2000” and  
 16 inserting “January 1, 2005”.

17 (b) *EFFECTIVE DATE.*—The amendment made by this  
 18 section shall apply to taxable years beginning after Decem-  
 19 ber 31, 1999.

20 **SEC. 1404. WORK OPPORTUNITY CREDIT AND WELFARE-TO-**  
 21 **WORK CREDIT.**

22 (a) *TEMPORARY EXTENSION.*—Sections 51(c)(4)(B)  
 23 and 51A(f) (relating to termination) are each amended by  
 24 striking “June 30, 1999” and inserting “December 31,  
 25 2001”.

1       (b) *CLARIFICATION OF FIRST YEAR OF EMPLOY-*  
 2 *MENT.—Paragraph (2) of section 51(i) is amended by strik-*  
 3 *ing “during which he was not a member of a targeted*  
 4 *group”.*

5       (c) *ELECTRONIC FILING OF CERTIFICATION.—Not*  
 6 *later than July 1, 2001, the Secretary of the Treasury or*  
 7 *the Secretary’s delegate shall provide an electronic format*  
 8 *by which employers may submit requests to designated local*  
 9 *agencies (as defined in section 51(d)(11) of the Internal*  
 10 *Revenue Code of 1986) for certifications that individuals*  
 11 *are members of targeted groups for purposes of section 51*  
 12 *of such Code.*

13       (d) *EFFECTIVE DATE.—The amendments made by this*  
 14 *section shall apply to individuals who begin work for the*  
 15 *employer after June 30, 1999.*

## 16       ***TITLE XV—REVENUE OFFSETS***

### 17       ***SEC. 1501. RETURNS RELATING TO CANCELLATIONS OF IN-*** 18                       ***DEBTEDNESS BY ORGANIZATIONS LENDING*** 19                       ***MONEY.***

20       (a) *IN GENERAL.—Paragraph (2) of section 6050P(c)*  
 21 *(relating to definitions and special rules) is amended by*  
 22 *striking “and” at the end of subparagraph (B), by striking*  
 23 *the period at the end of subparagraph (C) and inserting*  
 24 *“, and”, and by inserting after subparagraph (C) the fol-*  
 25 *lowing new subparagraph:*

1                   “(D) any organization a significant trade  
2                   or business of which is the lending of money.”

3           (b) *EFFECTIVE DATE.*—The amendment made by sub-  
4 section (a) shall apply to discharges of indebtedness after  
5 December 31, 1999.

6 **SEC. 1502. EXTENSION OF INTERNAL REVENUE SERVICE**  
7 **USER FEES.**

8           (a) *IN GENERAL.*—Chapter 77 (relating to miscella-  
9 neous provisions) is amended by adding at the end the fol-  
10 lowing new section:

11 **“SEC. 7527. INTERNAL REVENUE SERVICE USER FEES.**

12           “(a) *GENERAL RULE.*—The Secretary shall establish  
13 a program requiring the payment of user fees for—

14                   “(1) requests to the Internal Revenue Service for  
15 ruling letters, opinion letters, and determination let-  
16 ters, and

17                   “(2) other similar requests.

18           “(b) *PROGRAM CRITERIA.*—

19                   “(1) *IN GENERAL.*—The fees charged under the  
20 program required by subsection (a)—

21                           “(A) shall vary according to categories (or  
22 subcategories) established by the Secretary,

23                           “(B) shall be determined after taking into  
24 account the average time for (and difficulty of)

1           *complying with requests in each category (and*  
 2           *subcategory), and*

3           *“(C) shall be payable in advance.*

4           *“(2) EXEMPTIONS, ETC.—The Secretary shall*  
 5           *provide for such exemptions (and reduced fees) under*  
 6           *such program as the Secretary determines to be ap-*  
 7           *propriate.*

8           *“(3) AVERAGE FEE REQUIREMENT.—The average*  
 9           *fee charged under the program required by subsection*  
 10          *(a) shall not be less than the amount determined*  
 11          *under the following table:*

<b>“Category</b>	<b>Average Fee</b>
<i>Employee plan ruling and opinion .....</i>	<i>\$250</i>
<i>Exempt organization ruling .....</i>	<i>\$350</i>
<i>Employee plan determination .....</i>	<i>\$300</i>
<i>Exempt organization determination .....</i>	<i>\$275</i>
<i>Chief counsel ruling .....</i>	<i>\$200.</i>

12          *“(c) TERMINATION.—No fee shall be imposed under*  
 13          *this section with respect to requests made after September*  
 14          *30, 2009.”*

15          *(b) CONFORMING AMENDMENTS.—*

16                 *(1) The table of sections for chapter 77 is amend-*  
 17                 *ed by adding at the end the following new item:*

*“Sec. 7527. Internal Revenue Service user fees.”*

18                 *(2) Section 10511 of the Revenue Act of 1987 is*  
 19                 *repealed.*

1       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 2 *section shall apply to requests made after the date of the*  
 3 *enactment of this Act.*

4       **SEC. 1503. LIMITATIONS ON WELFARE BENEFIT FUNDS OF**  
 5               **10 OR MORE EMPLOYER PLANS.**

6       (a) *BENEFITS TO WHICH EXCEPTION APPLIES.*—*Sec-*  
 7 *tion 419A(f)(6)(A) (relating to exception for 10 or more em-*  
 8 *ployer plans) is amended to read as follows:*

9               “(A) *IN GENERAL.*—*This subpart shall not*  
 10 *apply to a welfare benefit fund which is part of*  
 11 *a 10 or more employer plan if the only benefits*  
 12 *provided through the fund are 1 or more of the*  
 13 *following:*

14               “(i) *Medical benefits.*

15               “(ii) *Disability benefits.*

16               “(iii) *Group term life insurance bene-*  
 17 *fits which do not provide for any cash sur-*  
 18 *render value or other money that can be*  
 19 *paid, assigned, borrowed, or pledged for col-*  
 20 *lateral for a loan.*

21       *The preceding sentence shall not apply to any*  
 22 *plan which maintains experience-rating arrange-*  
 23 *ments with respect to individual employers.”*

24       (b) *LIMITATION ON USE OF AMOUNTS FOR OTHER*  
 25 *PURPOSES.*—*Section 4976(b) (defining disqualified benefit)*

1 *is amended by adding at the end the following new para-*  
 2 *graph:*

3           “(5) *SPECIAL RULE FOR 10 OR MORE EMPLOYER*  
 4           *PLANS EXEMPTED FROM PREFUNDING LIMITS.*—*For*  
 5           *purposes of paragraph (1)(C), if—*

6                   “(A) *subpart D of part I of subchapter D*  
 7                   *of chapter 1 does not apply by reason of section*  
 8                   *419A(f)(6) to contributions to provide 1 or more*  
 9                   *welfare benefits through a welfare benefit fund*  
 10                   *under a 10 or more employer plan, and*

11                   “(B) *any portion of the welfare benefit fund*  
 12                   *attributable to such contributions is used for a*  
 13                   *purpose other than that for which the contribu-*  
 14                   *tions were made,*

15           *then such portion shall be treated as reverting to the*  
 16           *benefit of the employers maintaining the fund.”*

17           “(c) *EFFECTIVE DATE.*—*The amendments made by this*  
 18           *section shall apply to contributions paid or accrued after*  
 19           *June 9, 1999, in taxable years ending after such date.*

20   **SEC. 1504. INCREASE IN ELECTIVE WITHHOLDING RATE**  
 21                   **FOR NONPERIODIC DISTRIBUTIONS FROM**  
 22                   **DEFERRED COMPENSATION PLANS.**

23           “(a) *IN GENERAL.*—*Section 3405(b)(1) (relating to*  
 24           *withholding) is amended by striking ‘10 percent’ and in-*  
 25           *serting ‘15 percent’.*

1           (b) *EFFECTIVE DATE.*—The amendment made by  
 2 subsection (a) shall apply to distributions after December  
 3 31, 1999.

4 **SEC. 1505. CONTROLLED ENTITIES INELIGIBLE FOR REIT**  
 5 **STATUS.**

6           (a) *IN GENERAL.*—Subsection (a) of section 856 (relat-  
 7 ing to definition of real estate investment trust) is amended  
 8 by striking “and” at the end of paragraph (6), by redesign-  
 9 ating paragraph (7) as paragraph (8), and by inserting  
 10 after paragraph (6) the following new paragraph:

11                   “(7) which is not a controlled entity (as defined  
 12 in subsection (l)); and”.

13           (b) *CONTROLLED ENTITY.*—Section 856 is amended by  
 14 adding at the end the following new subsection:

15           “(l) *CONTROLLED ENTITY.*—

16                   “(1) *IN GENERAL.*—For purposes of subsection  
 17 (a)(7), an entity is a controlled entity if, at any time  
 18 during the taxable year, one person (other than a  
 19 qualified entity)—

20                           “(A) in the case of a corporation, owns  
 21 stock—

22                                   “(i) possessing at least 50 percent of  
 23 the total voting power of the stock of such  
 24 corporation, or

1                   “(ii) having a value equal to at least  
 2                   50 percent of the total value of the stock of  
 3                   such corporation, or

4                   “(B) in the case of a trust, owns beneficial  
 5                   interests in the trust which would meet the re-  
 6                   quirements of subparagraph (A) if such interests  
 7                   were stock.

8                   “(2) *QUALIFIED ENTITY*.—For purposes of para-  
 9                   graph (1), the term ‘qualified entity’ means—

10                   “(A) any real estate investment trust, and

11                   “(B) any partnership in which one real es-  
 12                   tate investment trust owns at least 50 percent of  
 13                   the capital and profits interests in the partner-  
 14                   ship.

15                   “(3) *ATTRIBUTION RULES*.—For purposes of this  
 16                   paragraphs (1) and (2)—

17                   “(A) *IN GENERAL*.—Rules similar to the  
 18                   rules of subsections (d)(5) and (h)(3) shall apply.

19                   “(B) *STAPLED ENTITIES*.—A group of enti-  
 20                   ties which are stapled entities (as defined in sec-  
 21                   tion 269B(c)(2)) shall be treated as 1 person.

22                   “(4) *EXCEPTION FOR CERTAIN NEW REITS*.—

23                   “(A) *IN GENERAL*.—The term ‘controlled en-  
 24                   tity’ shall not include an incubator REIT.



1           “(B) *INCUBATOR REIT*.—A corporation  
2           shall be treated as an incubator *REIT* for any  
3           taxable year during the eligibility period if it  
4           meets all the following requirements for such  
5           year:

6                     “(i) *The corporation elects to be treated*  
7                     *as an incubator REIT.*

8                     “(ii) *The corporation has only voting*  
9                     *common stock outstanding.*

10                    “(iii) *Not more than 50 percent of the*  
11                    *corporation’s real estate assets consist of*  
12                    *mortgages.*

13                    “(iv) *From not later than the begin-*  
14                    *ning of the last half of the second taxable*  
15                    *year, at least 10 percent of the corporation’s*  
16                    *capital is provided by lenders or equity in-*  
17                    *vestors who are unrelated to the corpora-*  
18                    *tion’s largest shareholder.*

19                    “(v) *The directors of the corporation*  
20                    *adopt a resolution setting forth an intent to*  
21                    *engage in a going public transaction.*

22           *No election may be made with respect to any*  
23           *REIT if an election under this subsection was in*  
24           *effect for any predecessor of such REIT.*

1           “(C) *ELIGIBILITY PERIOD.*—*The eligibility*  
2           *period (for which an incubator REIT election*  
3           *can be made) begins with the REIT’s second tax-*  
4           *able year and ends at the close of the REIT’s*  
5           *third taxable year, but, subject to the following*  
6           *rules, it may be extended for an additional 2*  
7           *taxable years if the REIT so elects:*

8                     “(i) *A REIT cannot elect to extend the*  
9                     *eligibility period unless it agrees that, if it*  
10                    *does not engage in a going public trans-*  
11                    *action by the end of the extended eligibility*  
12                    *period, it shall pay Federal income taxes*  
13                    *for the 2 years of the extended eligibility pe-*  
14                    *riod as if it had not made an incubator*  
15                    *REIT election and had ceased to qualify as*  
16                    *a REIT for those 2 taxable years.*

17                    “(ii) *In the event the corporation*  
18                    *ceases to be treated as a REIT by operation*  
19                    *of clause (i), the corporation shall file any*  
20                    *appropriate amended returns reflecting the*  
21                    *change in status within 3 months of the*  
22                    *close of the extended eligibility period. In-*  
23                    *terest would be payable but, unless there*  
24                    *was a finding under subparagraph (D), no*  
25                    *substantial underpayment penalties shall be*

1           imposed. The corporation shall, at the same  
2           time, also notify its shareholders and any  
3           other persons whose tax position is, or may  
4           reasonably be expected to be, affected by the  
5           change in status so they also may file any  
6           appropriate amended returns to conform  
7           their tax treatment consistent with the cor-  
8           poration's loss of REIT status. The Sec-  
9           retary shall provide appropriate regulations  
10          setting forth transferee liability and other  
11          provisions to ensure collection of tax and  
12          the proper administration of this provision.

13               “(iii) Clause (i) and (ii) shall not  
14          apply if the corporation allows its incu-  
15          bator REIT status to lapse at the end of the  
16          initial 2-year eligibility period without en-  
17          gaging in a going public transaction, pro-  
18          vided the corporation satisfies the require-  
19          ments of the closely-held test commencing  
20          with its fourth taxable year. In such a case,  
21          the corporation's directors may still be lia-  
22          ble for the penalties described in subpara-  
23          graph (D) during the eligibility period.

24               “(D) SPECIAL PENALTIES.—If the Secretary  
25          determines that an incubator REIT election was

1       *filed for a principal purpose other than as part*  
2       *of a reasonable plan to undertake a going public*  
3       *transaction, an excise tax of \$20,000 would be*  
4       *imposed on each of the corporation's directors for*  
5       *each taxable year for which an election was in*  
6       *effect.*

7               “(E) *GOING PUBLIC TRANSACTION.*—For  
8       *purposes of this paragraph, a going public trans-*  
9       *action means—*

10              “(i) *a public offering of shares of the*  
11              *stock of the incubator REIT;*

12              “(ii) *a transaction, or series of trans-*  
13              *actions, that results in the stock of the incu-*  
14              *bator REIT being regularly traded on an*  
15              *established securities market and that re-*  
16              *sults in at least 50 percent of such stock*  
17              *being held by shareholders who are unre-*  
18              *lated to persons who held such stock before*  
19              *it began to be so regularly traded; or*

20              “(iii) *any transaction resulting in*  
21              *ownership of the REIT by 200 or more per-*  
22              *sons (excluding the largest single share-*  
23              *holder) who in the aggregate own at least 50*  
24              *percent of the stock of the REIT.*

1           *For the purposes of this subparagraph, the rules*  
2           *of paragraph (3) shall apply in determining the*  
3           *ownership of stock.*

4           “(F) *DEFINITIONS.*—*The term ‘established*  
5           *securities market’ shall have the meaning set*  
6           *forth in the regulations under section 897.”*

7           (c) *CONFORMING AMENDMENT.*—*Paragraph (2) of sec-*  
8           *tion 856(h) is amended by striking “and (6)” each place*  
9           *it appears and inserting “, (6), and (7)”.*

10          (d) *EFFECTIVE DATE.*—

11           (1) *IN GENERAL.*—*The amendments made by*  
12           *this section shall apply to taxable years ending after*  
13           *July 12, 1999.*

14           (2) *EXCEPTION FOR EXISTING CONTROLLED EN-*  
15           *TITIES.*—*The amendments made by this section shall*  
16           *not apply to any entity which is a controlled entity*  
17           *(as defined in section 856(l) of the Internal Revenue*  
18           *Code of 1986, as added by this section) as of July 12,*  
19           *1999, which is a real estate investment trust for the*  
20           *taxable year which includes such date, and which has*  
21           *significant business assets or activities as of such*  
22           *date.*

1 **SEC. 1506. TREATMENT OF GAIN FROM CONSTRUCTIVE**  
 2 **OWNERSHIP TRANSACTIONS.**

3 (a) *IN GENERAL.*—Part IV of subchapter P of chapter  
 4 1 (relating to special rules for determining capital gains  
 5 and losses) is amended by inserting after section 1259 the  
 6 following new section:

7 **“SEC. 1260. GAINS FROM CONSTRUCTIVE OWNERSHIP**  
 8 **TRANSACTIONS.**

9 “(a) *IN GENERAL.*—If the taxpayer has gain from a  
 10 constructive ownership transaction with respect to any fi-  
 11 nancial asset and such gain would (without regard to this  
 12 section) be treated as a long-term capital gain—

13 “(1) such gain shall be treated as ordinary in-  
 14 come to the extent that such gain exceeds the net un-  
 15 derlying long-term capital gain, and

16 “(2) to the extent such gain is treated as a long-  
 17 term capital gain after the application of paragraph  
 18 (1), the determination of the capital gain rate (or  
 19 rates) applicable to such gain under section 1(h) shall  
 20 be determined on the basis of the respective rate (or  
 21 rates) that would have been applicable to the net un-  
 22 derlying long-term capital gain.

23 “(b) *INTEREST CHARGE ON DEFERRAL OF GAIN REC-*  
 24 *OGNITION.*—

25 “(1) *IN GENERAL.*—If any gain is treated as or-  
 26 dinary income for any taxable year by reason of sub-

1       section (a)(1), the tax imposed by this chapter for  
2       such taxable year shall be increased by the amount of  
3       interest determined under paragraph (2) with respect  
4       to each prior taxable year during any portion of  
5       which the constructive ownership transaction was  
6       open. Any amount payable under this paragraph  
7       shall be taken into account in computing the amount  
8       of any deduction allowable to the taxpayer for interest  
9       paid or accrued during such taxable year.

10           “(2) AMOUNT OF INTEREST.—The amount of in-  
11       terest determined under this paragraph with respect  
12       to a prior taxable year is the amount of interest  
13       which would have been imposed under section 6601  
14       on the underpayment of tax for such year which  
15       would have resulted if the gain (which is treated as  
16       ordinary income by reason of subsection (a)(1)) had  
17       been included in gross income in the taxable years in  
18       which it accrued (determined by treating the income  
19       as accruing at a constant rate equal to the applicable  
20       Federal rate as in effect on the day the transaction  
21       closed). The period during which such interest shall  
22       accrue shall end on the due date (without extensions)  
23       for the return of tax imposed by this chapter for the  
24       taxable year in which such transaction closed.

1           “(3) *APPLICABLE FEDERAL RATE.*—For purposes  
 2           of paragraph (2), the applicable Federal rate is the  
 3           applicable Federal rate determined under 1274(d)  
 4           (compounded semiannually) which would apply to a  
 5           debt instrument with a term equal to the period the  
 6           transaction was open.

7           “(4) *NO CREDITS AGAINST INCREASE IN TAX.*—  
 8           Any increase in tax under paragraph (1) shall not be  
 9           treated as tax imposed by this chapter for purposes  
 10          of determining—

11                   “(A) the amount of any credit allowable  
 12                   under this chapter, or

13                   “(B) the amount of the tax imposed by sec-  
 14                   tion 55.

15          “(c) *FINANCIAL ASSET.*—For purposes of this  
 16          section—

17                   “(1) *IN GENERAL.*—The term ‘financial asset’  
 18                   means—

19                           “(A) any equity interest in any pass-thru  
 20                           entity, and

21                           “(B) to the extent provided in regulations—

22                                   “(i) any debt instrument, and

23                                   “(ii) any stock in a corporation which  
 24                                   is not a pass-thru entity.



1           “(2) *PASS-THRU ENTITY*.—For purposes of para-  
 2       graph (1), the term ‘pass-thru entity’ means—

3                       “(A) a regulated investment company,

4                       “(B) a real estate investment trust,

5                       “(C) an S corporation,

6                       “(D) a partnership,

7                       “(E) a trust,

8                       “(F) a common trust fund,

9                       “(G) a passive foreign investment company  
 10       (as defined in section 1297),

11                      “(H) a foreign personal holding company,

12       and

13                      “(I) a foreign investment company (as de-  
 14       fined in section 1246(b)).

15       “(d) *CONSTRUCTIVE OWNERSHIP TRANSACTION*.—For  
 16       purposes of this section—

17                      “(1) *IN GENERAL*.—The taxpayer shall be treated  
 18       as having entered into a constructive ownership  
 19       transaction with respect to any financial asset if the  
 20       taxpayer—

21                               “(A) holds a long position under a notional  
 22       principal contract with respect to the financial  
 23       asset,

24                               “(B) enters into a forward or futures con-  
 25       tract to acquire the financial asset,

1           “(C) is the holder of a call option, and is  
2           the grantor of a put option, with respect to the  
3           financial asset and such options have substan-  
4           tially equal strike prices and substantially con-  
5           temporaneous maturity dates, or

6           “(D) to the extent provided in regulations  
7           prescribed by the Secretary, enters into 1 or  
8           more other transactions (or acquires 1 or more  
9           positions) that have substantially the same effect  
10          as a transaction described in any of the pre-  
11          ceding subparagraphs.

12          “(2) *EXCEPTION FOR POSITIONS WHICH ARE*  
13          *MARKED TO MARKET.*—This section shall not apply to  
14          any constructive ownership transaction if all of the  
15          positions which are part of such transaction are  
16          marked to market under any provision of this title or  
17          the regulations thereunder.

18          “(3) *LONG POSITION UNDER NOTIONAL PRIN-*  
19          *CIPAL CONTRACT.*—A person shall be treated as hold-  
20          ing a long position under a notional principal con-  
21          tract with respect to any financial asset if such  
22          person—

23                 “(A) has the right to be paid (or receive  
24                 credit for) all or substantially all of the invest-

1           *ment yield (including appreciation) on such fi-*  
2           *ancial asset for a specified period, and*

3           *“(B) is obligated to reimburse (or provide*  
4           *credit for) all or substantially all of any decline*  
5           *in the value of such financial asset.*

6           *“(4) FORWARD CONTRACT.—The term ‘forward*  
7           *contract’ means any contract to acquire in the future*  
8           *(or provide or receive credit for the future value of)*  
9           *any financial asset.*

10          *“(e) NET UNDERLYING LONG-TERM CAPITAL GAIN.—*  
11         *For purposes of this section, in the case of any constructive*  
12         *ownership transaction with respect to any financial asset,*  
13         *the term ‘net underlying long-term capital gain’ means the*  
14         *aggregate net capital gain that the taxpayer would have*  
15         *had if—*

16                 *“(1) the financial asset had been acquired for*  
17                 *fair market value on the date such transaction was*  
18                 *opened and sold for fair market value on the date*  
19                 *such transaction was closed, and*

20                 *“(2) only gains and losses that would have re-*  
21                 *sulted from the deemed ownership under paragraph*  
22                 *(1) were taken into account.*

23         *The amount of the net underlying long-term capital gain*  
24         *with respect to any financial asset shall be treated as zero*

1 *unless the amount thereof is established by clear and con-*  
2 *vincing evidence.*

3       “(f) *SPECIAL RULE WHERE TAXPAYER TAKES DELIV-*  
4 *ERY.—Except as provided in regulations prescribed by the*  
5 *Secretary, if a constructive ownership transaction is closed*  
6 *by reason of taking delivery, this section shall be applied*  
7 *as if the taxpayer had sold all the contracts, options, or*  
8 *other positions which are part of such transaction for fair*  
9 *market value on the closing date. The amount of gain recog-*  
10 *nized under the preceding sentence shall not exceed the*  
11 *amount of gain treated as ordinary income under sub-*  
12 *section (a). Proper adjustments shall be made in the*  
13 *amount of any gain or loss subsequently realized for gain*  
14 *recognized and treated as ordinary income under this sub-*  
15 *section.*

16       “(g) *REGULATIONS.—The Secretary shall prescribe*  
17 *such regulations as may be necessary or appropriate to*  
18 *carry out the purposes of this section, including*  
19 *regulations—*

20               “(1) *to permit taxpayers to mark to market con-*  
21 *structive ownership transactions in lieu of applying*  
22 *this section, and*

23               “(2) *to exclude certain forward contracts which*  
24 *do not convey substantially all of the economic return*  
25 *with respect to a financial asset.”*

1       (b) *CLERICAL AMENDMENT.*—*The table of sections for*  
 2 *part IV of subchapter P of chapter 1 is amended by adding*  
 3 *at the end the following new item:*

*“Sec. 1260. Gains from constructive ownership transactions.”.*

4       (c) *EFFECTIVE DATE.*—*The amendments made by this*  
 5 *section shall apply to transactions entered into after July*  
 6 *11, 1999.*

7       **SEC. 1507. TRANSFER OF EXCESS DEFINED BENEFIT PLAN**  
 8                               **ASSETS FOR RETIREE HEALTH BENEFITS.**

9       (a) *EXTENSION.*—*Paragraph (5) of section 420(b) (re-*  
 10 *lating to expiration) is amended by striking “in any tax-*  
 11 *able year beginning after December 31, 2000” and inserting*  
 12 *“made after September 30, 2009”.*

13       (b) *APPLICATION OF MINIMUM COST REQUIRE-*  
 14 *MENTS.*—

15               (1) *IN GENERAL.*—*Paragraph (3) of section*  
 16 *420(c) is amended to read as follows:*

17               “*(3) MINIMUM COST REQUIREMENTS.*—

18                       “*(A) IN GENERAL.*—*The requirements of*  
 19 *this paragraph are met if each group health plan*  
 20 *or arrangement under which applicable health*  
 21 *benefits are provided provides that the applicable*  
 22 *employer cost for each taxable year during the*  
 23 *cost maintenance period shall not be less than*  
 24 *the higher of the applicable employer costs for*

1        *each of the 2 taxable years immediately pre-*  
2        *ceding the taxable year of the qualified transfer.*

3            *“(B) APPLICABLE EMPLOYER COST.—For*  
4        *purposes of this paragraph, the term ‘applicable*  
5        *employer cost’ means, with respect to any tax-*  
6        *able year, the amount determined by dividing—*

7            *“(i) the qualified current retiree health*  
8        *liabilities of the employer for such taxable*  
9        *year determined—*

10            *“(I) without regard to any reduc-*  
11        *tion under subsection (e)(1)(B), and*

12            *“(II) in the case of a taxable year*  
13        *in which there was no qualified trans-*  
14        *fer, in the same manner as if there had*  
15        *been such a transfer at the end of the*  
16        *taxable year, by*

17            *“(ii) the number of individuals to*  
18        *whom coverage for applicable health benefits*  
19        *was provided during such taxable year.*

20            *“(C) ELECTION TO COMPUTE COST SEPA-*  
21        *RATELY.—An employer may elect to have this*  
22        *paragraph applied separately with respect to in-*  
23        *dividuals eligible for benefits under title XVIII of*  
24        *the Social Security Act at any time during the*

1        *taxable year and with respect to individuals not*  
 2        *so eligible.*

3                *“(D) COST MAINTENANCE PERIOD.—For*  
 4        *purposes of this paragraph, the term ‘cost main-*  
 5        *tenance period’ means the period of 5 taxable*  
 6        *years beginning with the taxable year in which*  
 7        *the qualified transfer occurs. If a taxable year is*  
 8        *in 2 or more overlapping cost maintenance peri-*  
 9        *ods, this paragraph shall be applied by taking*  
 10       *into account the highest applicable employer cost*  
 11       *required to be provided under subparagraph (A)*  
 12       *for such taxable year.”*

13        *(2) CONFORMING AMENDMENTS.—*

14                *(A) Clause (iii) of section 420(b)(1)(C) is*  
 15        *amended by striking “benefits” and inserting*  
 16        *“cost”.*

17                *(B) Subparagraph (D) of section 420(e)(1)*  
 18        *is amended by striking “and shall not be subject*  
 19        *to the minimum benefit requirements of sub-*  
 20        *section (c)(3)” and inserting “or in calculating*  
 21        *applicable employer cost under subsection*  
 22        *(c)(3)(B)”.*

23        *(c) EFFECTIVE DATE.—The amendments made by this*  
 24        *section shall apply to qualified transfers occurring after the*  
 25        *date of the enactment of this Act.*

1 **SEC. 1508. MODIFICATION OF INSTALLMENT METHOD AND**  
 2 **REPEAL OF INSTALLMENT METHOD FOR AC-**  
 3 **CRUAL METHOD TAXPAYERS.**

4 *(a) REPEAL OF INSTALLMENT METHOD FOR ACCRUAL*  
 5 *BASIS TAXPAYERS.—*

6 *(1) IN GENERAL.—Subsection (a) of section 453*  
 7 *(relating to installment method) is amended to read*  
 8 *as follows:*

9 *“(a) USE OF INSTALLMENT METHOD.—*

10 *“(1) IN GENERAL.—Except as otherwise provided*  
 11 *in this section, income from an installment sale shall*  
 12 *be taken into account for purposes of this title under*  
 13 *the installment method.*

14 *“(2) ACCRUAL METHOD TAXPAYER.—The install-*  
 15 *ment method shall not apply to income from an in-*  
 16 *stallment sale if such income would be reported under*  
 17 *an accrual method of accounting without regard to*  
 18 *this section. The preceding sentence shall not apply to*  
 19 *a disposition described in subparagraph (A) or (B) of*  
 20 *subsection (l)(2).”*

21 *(2) CONFORMING AMENDMENTS.—Sections*  
 22 *453(d)(1), 453(i)(1), and 453(k) are each amended by*  
 23 *striking “(a)” each place it appears and inserting*  
 24 *“(a)(1)”.*

25 *(b) MODIFICATION OF PLEDGE RULES.—Paragraph*  
 26 *(4) of section 453A(d) (relating to pledges, etc., of install-*



1 ment obligations) is amended by adding at the end the fol-  
 2 lowing: “A payment shall be treated as directly secured by  
 3 an interest in an installment obligation to the extent an  
 4 arrangement allows the taxpayer to satisfy all or a portion  
 5 of the indebtedness with the installment obligation.”

6 (c) *EFFECTIVE DATE.*—The amendments made by this  
 7 section shall apply to sales or other dispositions occurring  
 8 on or after the date of the enactment of this Act.

9 **SEC. 1509. LIMITATION ON USE OF NONACCRUAL EXPERI-**  
 10 **ENCE METHOD OF ACCOUNTING.**

11 (a) *IN GENERAL.*—Section 448(d)(5) (relating to spe-  
 12 cial rule for services) is amended—

13 (1) by inserting “in fields described in para-  
 14 graph (2)(A)” after “services by such person”, and

15 (2) by inserting “CERTAIN PERSONAL” before  
 16 “SERVICES” in the heading.

17 (b) *EFFECTIVE DATE.*—

18 (1) *IN GENERAL.*—The amendments made by  
 19 this section shall apply to taxable years ending after  
 20 the date of the enactment of this Act.

21 (2) *CHANGE IN METHOD OF ACCOUNTING.*—In  
 22 the case of any taxpayer required by the amendments  
 23 made by this section to change its method of account-  
 24 ing for its first taxable year ending after the date of  
 25 the enactment of this Act—

1           (A) such change shall be treated as initiated  
2           by the taxpayer,

3           (B) such change shall be treated as made  
4           with the consent of the Secretary of the Treasury,  
5           and

6           (C) the net amount of the adjustments re-  
7           quired to be taken into account by the taxpayer  
8           under section 481 of the Internal Revenue Code  
9           of 1986 shall be taken into account over a period  
10          (not greater than 4 taxable years) beginning  
11          with such first taxable year.

12 **SEC. 1510. EXCLUSION OF LIKE-KIND EXCHANGE PROPERTY**  
13 **FROM NONRECOGNITION TREATMENT ON**  
14 **THE SALE OF A PRINCIPAL RESIDENCE.**

15       (a) *IN GENERAL.*—Subsection (d) of section 121 (relat-  
16 *ing to the exclusion of gain from the sale of a principal*  
17 *residence)* is amended by adding at the end the following  
18 *new paragraph:*

19           “(9) *LIKE-KIND EXCHANGES.*—Subsection (a)  
20 *shall not apply to any sale or exchange of a residence*  
21 *if such residence was acquired by the taxpayer during*  
22 *the 5-year period ending on the date of such sale or*  
23 *exchange in an exchange in which any amount of*  
24 *gain was not recognized under section 1031.”*

1       (b) *EFFECTIVE DATE.*—*The amendment made by sub-*  
 2       *section (a) shall apply to any sale or exchange of a prin-*  
 3       *cipal residence after the date of the enactment of this Act.*

## 4                   **TITLE XVI—TECHNICAL** 5                   **CORRECTIONS**

### 6       **SEC. 1601. AMENDMENTS RELATED TO TAX AND TRADE RE-** 7                   **LIEF EXTENSION ACT OF 1998.**

8       (a) *AMENDMENT RELATED TO SECTION 1004(b) OF*  
 9       *THE ACT.*—*Subsection (d) of section 6104 is amended by*  
 10       *adding at the end the following new paragraph:*

11               “(6) *APPLICATION TO NONEXEMPT CHARITABLE*  
 12       *TRUSTS AND NONEXEMPT PRIVATE FOUNDATIONS.*—  
 13       *The organizations referred to in paragraphs (1) and*  
 14       *(2) of section 6033(d) shall comply with the require-*  
 15       *ments of this subsection relating to annual returns*  
 16       *filed under section 6033 in the same manner as the*  
 17       *organizations referred to in paragraph (1).”*

18       (b) *AMENDMENTS RELATED TO SECTION 4003 OF THE*  
 19       *ACT.*—

20               (1) *Subsection (b) of section 4003 of the Tax and*  
 21       *Trade Relief Extension Act of 1998 is amended by in-*  
 22       *serting “(7)(A)(i)(II),” after “(5)(A)(ii)(I),”.*

23               (2) *Subparagraph (A) of section 9510(c)(1) is*  
 24       *amended by striking “August 5, 1997” and inserting*  
 25       *“October 21, 1998”.*

1       (c) *VACCINE TAX AND TRUST FUND*.—Sections 1503  
 2   and 1504 of the Vaccine Injury Compensation Program  
 3   Modification Act (and the amendments made by such sec-  
 4   tions) are hereby repealed.

5       (d) *EFFECTIVE DATE*.—The amendments made by this  
 6   section shall take effect as if included in the provisions of  
 7   the Tax and Trade Relief Extension Act of 1998 to which  
 8   they relate.

9   **SEC. 1602. AMENDMENTS RELATED TO INTERNAL REVENUE**  
 10                   **SERVICE RESTRUCTURING AND REFORM ACT**  
 11                   **OF 1998.**

12       (a) *AMENDMENT RELATED TO 1103 OF THE ACT*.—  
 13   Paragraph (6) of section 6103(k) is amended—

14               (1) by inserting “and an officer or employee of  
 15       the Office of Treasury Inspector General for Tax Ad-  
 16       ministration” after “internal revenue officer or em-  
 17       ployee”, and

18               (2) by striking “INTERNAL REVENUE” in the  
 19       heading and inserting “CERTAIN”.

20       (b) *AMENDMENT RELATED TO SECTION 3509 OF THE*  
 21   *ACT*.—Subparagraph (A) of section 6110(g)(5) is amended  
 22   by inserting “, any Chief Counsel advice,” after “technical  
 23   advice memorandum”.

24       (c) *EFFECTIVE DATE*.—The amendments made by this  
 25   section shall take effect as if included in the provisions of

1 *the Internal Revenue Service Restructuring and Reform Act*  
 2 *of 1998 to which they relate.*

3 **SEC. 1603. AMENDMENTS RELATED TO TAXPAYER RELIEF**

4 **ACT OF 1997.**

5 (a) *AMENDMENT RELATED TO SECTION 302 OF THE*  
 6 *ACT.—The last sentence of section 3405(e)(1)(B) is amend-*  
 7 *ed by inserting “(other than a Roth IRA)” after “indi-*  
 8 *vidual retirement plan”.*

9 (b) *AMENDMENTS RELATED TO SECTION 1072 OF THE*  
 10 *ACT.—*

11 (1) *Clause (ii) of section 415(c)(3)(D) and sub-*  
 12 *paragraph (B) of section 403(b)(3) are each amended*  
 13 *by striking “section 125 or” and inserting “section*  
 14 *125, 132(f)(4), or”.*

15 (2) *Paragraph (2) of section 414(s) is amended*  
 16 *by striking “section 125, 402(e)(3)” and inserting*  
 17 *“section 125, 132(f)(4), 402(e)(3)”.*

18 (c) *AMENDMENT RELATED TO SECTION 1454 OF THE*  
 19 *ACT.—Subsection (a) of section 7436 is amended by insert-*  
 20 *ing before the period at the end of the first sentence “and*  
 21 *the proper amount of employment tax under such deter-*  
 22 *mination”.*

23 (d) *EFFECTIVE DATE.—The amendments made by this*  
 24 *section shall take effect as if included in the provisions of*  
 25 *the Taxpayer Relief of 1997 to which they relate.*

1 **SEC. 1604. OTHER TECHNICAL CORRECTIONS.**

2 (a) *AFFILIATED CORPORATIONS IN CONTEXT OF*  
 3 *WORTHLESS SECURITIES.*—

4 (1) *Subparagraph (A) of section 165(g)(3) is*  
 5 *amended to read as follows:*

6 “(A) *the taxpayer owns directly stock in*  
 7 *such corporation meeting the requirements of sec-*  
 8 *tion 1504(a)(2), and”.*

9 (2) *Paragraph (3) of section 165(g) is amended*  
 10 *by striking the last sentence.*

11 (3) *The amendments made by this subsection*  
 12 *shall apply to taxable years beginning after December*  
 13 *31, 1984.*

14 (b) *REFERENCE TO CERTAIN STATE PLANS.*—

15 (1) *Subparagraph (B) of section 51(d)(2) is*  
 16 *amended—*

17 (A) *by striking “plan approved” and insert-*  
 18 *ing “program funded”, and*

19 (B) *by striking “(relating to assistance for*  
 20 *needy families with minor children)”.*

21 (2) *The amendment made by paragraph (1) shall*  
 22 *take effect as if included in the amendments made by*  
 23 *section 1201 of the Small Business Job Protection Act*  
 24 *of 1996.*

25 (c) *AMOUNT OF IRA CONTRIBUTION OF LESSER EARN-*  
 26 *ING SPOUSE.*—

1           (1) *Clause (ii) of section 219(c)(1)(B) is amend-*  
 2           *ed by striking “and” at the end of subclause (I), by*  
 3           *redesignating subclause (II) as subclause (III), and*  
 4           *by inserting after subclause (I) the following new sub-*  
 5           *clause:*

6                               *“(II) the amount of any des-*  
 7                               *ignated nondeductible contribution (as*  
 8                               *defined in section 408(o)) on behalf of*  
 9                               *such spouse for such taxable year,*  
 10                              *and”.*

11           (2) *The amendment made by paragraph (1) shall*  
 12           *take effect as if included in section 1427 of the Small*  
 13           *Business Job Protection Act of 1996.*

14           (d) *MODIFIED ENDOWMENT CONTRACTS.—*

15           (1) *Paragraph (2) of section 7702A(a) is amend-*  
 16           *ed by inserting “or this paragraph” before the period.*

17           (2) *Clause (ii) of section 7702A(c)(3)(A) is*  
 18           *amended by striking “under the contract” and insert-*  
 19           *ing “under the old contract”.*

20           (3) *The amendments made by this subsection*  
 21           *shall take effect as if included in the amendments*  
 22           *made by section 5012 of the Technical and Miscella-*  
 23           *neous Revenue Act of 1988.*

24           (e) *LUMP-SUM DISTRIBUTIONS.—*

1           (1) *Clause (ii) of section 401(k)(10)(B) is*  
 2           *amended by adding at the end the following new sen-*  
 3           *tence: “Such term includes a distribution of an annu-*  
 4           *ity contract from—*

5                               *“(I) a trust which forms a part of*  
 6                               *a plan described in section 401(a) and*  
 7                               *which is exempt from tax under section*  
 8                               *501(a), or*

9                               *“(II) an annuity plan described*  
 10                              *in section 403(a).”*

11           (2) *The amendment made by paragraph (1) shall*  
 12           *take effect as if included in section 1401 of the Small*  
 13           *Business Job Protection Act of 1996.*

14           (f) *TENTATIVE CARRYBACK ADJUSTMENTS OF LOSSES*  
 15           *FROM SECTION 1256 CONTRACTS.—*

16           (1) *Subsection (a) of section 6411 is amended by*  
 17           *striking “section 1212(a)(1)” and inserting “sub-*  
 18           *section (a)(1) or (c) of section 1212”.*

19           (2) *The amendment made by paragraph (1) shall*  
 20           *take effect as if included in the amendments made by*  
 21           *section 504 of the Economic Recovery Tax Act of*  
 22           *1981.*



1 **SEC. 1605. CLERICAL CHANGES.**

2           (1) *Subsection (f) of section 67 is amended by*  
3 *striking “the last sentence” and inserting “the second*  
4 *sentence”.*

5           (2) *The heading for paragraph (5) of section*  
6 *408(d) is amended to read as follows:*

7           *“(5) DISTRIBUTIONS OF EXCESS CONTRIBUTIONS*  
8 *AFTER DUE DATE FOR TAXABLE YEAR AND CERTAIN*  
9 *EXCESS ROLLOVER CONTRIBUTIONS.—”.*

10          (3) *The heading for subparagraph (B) of section*  
11 *529(e)(3) is amended by striking “UNDER GUARAN-*  
12 *TEED PLANS”.*

13          (4)(A) *Subsection (e) of section 678 is amended*  
14 *by striking “an electing small business corporation”*  
15 *and inserting “an S corporation”.*

16          (B) *Clause (v) of section 6103(e)(1)(D) is*  
17 *amended to read as follows:*

18               *“(v) if the corporation was an S cor-*  
19 *poration, any person who was a shareholder*  
20 *during any part of the period covered by*  
21 *such return during which an election under*  
22 *section 1362(a) was in effect, or”.*

23          (5) *Subparagraph (B) of section 995(b)(3) is*  
24 *amended by striking “the Military Security Act of*  
25 *1954 (22 U.S.C. 1934)” and inserting “section 38 of*

1       *the International Security Assistance and Arms Ex-*  
2       *port Control Act of 1976 (22 U.S.C. 2778)”.*

3               *(6) Subparagraph (B) of section 4946(c)(3) is*  
4       *amended by striking “the lowest rate of compensation*  
5       *prescribed for GS-16 of the General Schedule under*  
6       *section 5332” and inserting “the lowest rate of basic*  
7       *pay for the Senior Executive Service under section*  
8       *5382”.*

Amend the title so as to read: “A bill to provide for reconciliation pursuant to sections 105 and 211 of the concurrent resolution on the budget for fiscal year 2000.”.